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No. 83-221

IN THE

Supreme Court of the United States

OCTOBER TERM, 1983

CELINA B. MESTRE, Personal Representative of the Estate of Luis Mestre, deceased,

Petitioner,

v.

PITNEY BOWES, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE ELEVENTH CIRCUIT

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QUESTIONS PRESENTED

1. Whether trade secret rights in an agreement licensing trade secrets and subsequently issued patents survive the expiration of the patents.

2. Whether arbitration of a dispute, which the parties agreed to arbitrate, involving trade secret rights under state law may be enjoined by a federal court after resolution of the federal patent law issue.

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v.

PITNEY BOWES, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE ELEVENTH CIRCUIT

Petitioner Celina B. Mestre, personal representative of the Estate of Luis Mestre, deceased,[1] respectfully prays that a writ of certiorari issue to review the judgment entered April 4, 1983, rehearing denied, May 17, 1983, of the United States Court of Appeals for the Eleventh Circuit.

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1 Luis Mestre ("Mestre") died during the pendency of this litigation. His wife, Celina B. Mestre, was substituted as personal representative of his estate.

OPINIONS BELOW

The opinion of the Court of Appeals for the Eleventh Circuit (the "Eleventh Circuit") is reported at 701 F.2d 1365 (1983) (Appendix ("App.") A[2]), and that of the United States District Court for the Southern District of Florida (the "district court") is reported at 517 F. Supp. 52 (1981) (App. B).

JURISDICTION

The judgment of the Eleventh Circuit was entered on April 4, 1983. Petitioner timely filed a petition for rehearing and a suggestion for rehearing *en banc*, both of which were denied by order dated May 17, 1983 (App. C). This petition was filed within 90 days thereafter. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Constitution of the United States:

Article I, section 8.

> The Congress shall have Power . . .
>
> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. . . .

Statutes:

A. Patents

35 U.S.C. § 101.

> Whoever invents or discovers any new and useful process, machine, manufacture, or composition of mat-

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2 This and all similar references are to appendices attached to this petition.

ter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

35 U.S.C. § 154.

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs and assigns, for the term of seventeen years, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. . . .

B. Arbitration

9 U.S.C. § 2.

A written provision in . . . a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract or transaction, . . . shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.

9 U.S.C. § 3.

If any suit or proceeding be brought in any of the courts of the United States upon any issue referable to arbitration under an agreement in writing for such arbitration, the court in which such suit is pending, upon being satisfied that the issue involved in such suit or proceeding is referable to arbitration under such an agreement, shall on application of one of the parties stay the trial of the action until such arbitration has been had in accordance with the terms of the agreement . . . .

STATEMENT OF THE CASE

1. Mestre's Inventions and the License Agreements Relating Thereto

In 1954 Mestre designed and later built a prototype of a machine called the Rotary Collator. In 1958 Thomas Collators Industries, Inc. ("Thomas") entered into an agreement with Mestre licensing the inventions embodied in the Rotary Collator. Thereafter, Thomas and Mestre entered into three additional license agreements relating to inventions embodied in collators.[3]

Each of the four agreements licensed Mestre's trade secrets and know-how ("trade secrets") to Thomas and obligated Thomas to pay royalties. Pursuant to each agreement, Mestre supplied Thomas with prototypes, a set of shop experimental drawings and a parts list. At the time each agreement was executed, patents relating to the inventions embodied in each agreement had been applied for but had not been issued. Royalty obligations were not conditioned upon the issuance of the patents and were not altered after their subsequent issuance.

Prior to the acquisition in 1966 by Pitney Bowes, Inc. ("Pitney Bowes") of Thomas Collators, Inc., the parent of Thomas, Pitney Bowes insisted that Thomas and Mestre execute the Amendment Agreement (1965) modifying the four license agreements with respect to, *inter alia*, the termination and post-expiration consequences thereof. Under New York law and the Amendment Agreement,[4] Thomas is required to compensate Mestre for the use of the trade secrets after the expiration of the patents.

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3 These agreements were the Vertical Collator Agreement (1959), the A-10 Collator Agreement (1962) and the Auto-Sorter Agreement (1965).

4 The Amendment Agreement (at paragraph 29) and the prior agreements provide that "the Laws of the State of New York" shall govern.

In addition, at the insistence of Pitney Bowes, the Amendment Agreement (at paragraph 30) added the following arbitration clause:

> Any controversy or claim arising out of or relating to this Agreement and to the Agreements referred to herein, or the breach thereof, shall be settled by arbitration in accordance with the Rules of the American Arbitration Association, and judgment upon the award rendered by the Arbitrator(s) may be entered in any Court having jurisdiction thereof.

2. Pitney Bowes' Refusal to Pay Royalties and Mestre's Attempt to Invoke Arbitration

Upon the expiration of the last patent relating to the machine first licensed, Pitney Bowes notified Mestre that it would no longer pay any royalties on that machine. Thereupon, on January 27, 1978, Mestre filed a Demand for Arbitration (No. 32-10-0025-78-B) with the American Arbitration Association, Miami, Florida, requesting compensation for the continued use of trade secrets under the agreements.

3. Origin of the Litigation

In response to Mestre's Demand for Arbitration, Pitney Bowes commenced this action in the district court on March 31, 1978, based solely upon diversity of citizenship, seeking a declaratory judgment with respect to the construction and enforceability of all the various agreements and a permanent injunction against arbitration. Pitney Bowes alleged, *inter alia*, that it intended to cease paying royalties on each of the machines after the expiration of the last patent relating thereto irrespective of the terms of any of the agreements.

Mestre sought to stay proceedings in the district court pursuant to the United States Arbitration Act, 9 U.S.C. § 3. *See* p. 3, *supra*. The district court refused to stay proceedings and on November 8, 1978, enjoined Mestre from commencing

arbitration proceedings "relating to the subject matter of this action" on the grounds that the claims "present issues too intertwined with federal law and policy to be arbitrable." *Pitney Bowes, Inc. v. Mestre*, 203 U.S.P.Q. 554 (S.D. Fla. 1978) (App. D at 1-2).

4. The Decisions Below

After extensive discovery proceedings, Mestre moved for summary judgment dismissing the complaint and Pitney Bowes cross-moved for summary judgment that the agreements are unenforceable as a matter of law after expiration of the patents. On February 12, 1981, the district court denied Mestre's motion and granted Pitney Bowes' motion in part. The district court held that the Rotary Collator Agreement, as amended, is solely a trade secret agreement and that the expiration date of the agreement is a question of New York law, resolution of which is reserved for trial. (App. B at 25-26)

The district court also held that each of the other three agreements, as amended, is a "hybrid trade secret/patent agreement" ("hybrid agreement") and expires on the expiration date of the last-to-expire patent licensed under each agreement. (*Id.* at 25) In addition, the district court found that the language of the Amendment Agreement does not expressly create post-expiration reversionary interests in any of Mestre's trade secrets, but again reserved for trial the question whether New York law would imply such interests as a matter of fact or law. (*Id.* at 25)

Both parties thereafter moved for reconsideration of the district court's rulings and in connection therewith Mestre also specifically sought to vacate the district court's order enjoining arbitration. The district court denied the motions (App. E) and pursuant to Rule 54(b) of the Federal Rules of Civil Procedure entered partial final judgment (App. F).

The Eleventh Circuit affirmed partial summary judgment on behalf of Pitney Bowes and held, in effect, that under the agreements, as amended, there are no obligations to continue to pay the specified royalties after the expiration of the

patents. (App. A at 8-15) The Eleventh Circuit agreed with the district court's reservation for trial of Mestre's reversionary rights under New York law and, *inter alia*, declined jurisdiction to consider Mestre's appeal from the district court's continuing injunction against arbitration on the ground that there was no "overriding intent" by Mestre to appeal the injunction. (*Id.* at 6-7, 17 (citation omitted)) However, the Eleventh Circuit accepted the district court's finding that "the claims 'present issues too intertwined with federal law and policy to be arbitrable.' " (*Id.* at 18 n.17, *citing Pitney Bowes, Inc. v. Mestre*, 203 U.S.P.Q. 554 (S.D. Fla. 1978))

REASONS FOR GRANTING THE WRIT

The reasons for granting the writ are (i) whether trade secret rights in an agreement licensing trade secrets and subsequently issued patents survive the expiration of the patents raises an important question of federal law which has not been, but should be, settled by this Court and (ii) the refusal to permit arbitration conflicts with decisions of other Circuits and is inconsistent with decisions of this Court.

1. Whether Trade Secret Rights in a Hybrid Agreement Survive the Expiration of the Patents Should Be Settled by this Court

The Eleventh Circuit explicitly recognized in its opinion below that "the Supreme Court has never addressed the question whether a hybrid agreement in which patents issue can ever survive the expiration of the patents." (App. A at 14 n.12) Nevertheless, purporting to rely on *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), the Eleventh Circuit concluded that royalty obligations for Mestre's trade secrets did not survive expiration of subsequently issued patents. (*Id.* at 11-15)

In *Brulotte*, the owner of various patents for hop-picking machines sold the machines and licensed their use for a period beyond the date the last patent expired. Trade secrets were not involved and, therefore, the case did not concern hybrid

agreements (the Eleventh Circuit's assertion to the contrary, App. A at 12, notwithstanding) or the conflict, if any, between state law of trade secrets and federal patent law.

This Court found that the possession of a patent "empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly," but that the owner may not use the patent to project its monopoly beyond the seventeen-year statutory period. 379 U.S. at 33. Accordingly, this Court held that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*." *Id.* at 32.

Thereafter, in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), this Court had occasion to consider application of *Brulotte* to a case in which obligations to pay royalties were embodied in two agreements licensing trade secrets in a keyholder for which a patent application was pending at the time the agreements were executed. One agreement provided for royalties of five percent of the selling price for " 'the exclusive right to make and sell keyholders.' " 440 U.S. at 259. The other contemporaneous agreement provided that if no patent issued within five years, the five percent royalty would be reduced to two and one-half percent "so long as" the licensee continued to sell the keyholders. *Id.*

After five years, the patent not having issued, the royalties were reduced. Fourteen years later, the licensee sought a declaratory judgment that its royalty obligation was unenforceable on the ground that state law, which might otherwise render the contract enforceable, was pre-empted by federal patent law. *Id.* at 260. The Eighth Circuit, reversing the lower court, upheld the licensee's contention.

This Court reversed and held that the *Aronson* agreement was enforceable, and rejected the notion that the pendency of a patent application at the time of execution of an agreement licensing trade secrets automatically triggered the *per se* rule of *Brulotte*. 440 U.S. at 265. This Court found that the *Aronson* agreement was governed by the principal that "[s]tate law is

not displaced merely because the contract relates to intellectual property which may or may not be patentable." *Id.* at 262, *citing Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 479 (1974).[5]

This Court further stated:

> Assuming, *arguendo*, that the initial letter and the commitment to pay a 5% royalty was subject to federal patent law, the provision relating to the 2½% royalty was explicity independent of federal law. . . .
>
> . . . .
>
> Requiring Quick Point to bear the burden of royalties for the use of the design is no more inconsistent with federal patent law than any of the other costs involved in being the first to introduce a new product to the market, such as outlays for research and development, and marketing and promotional expenses. For reasons which Quick Point's experience with the Aronson keyholder demonstrate, innovative entrepreneurs have usually found such costs to be well worth paying.

440 U.S. at 262-63. In addition, this Court held that the *Aronson* trade secret agreement provides an incentive to inven-

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5 *Kewanee Oil Co.*, in which this Court held that the federal patent law does not pre-empt the trade secret laws of the various states, recognized the importance of state trade secret protection:

> Trade secret law encourages the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws, but which items still have an important part to play in the technological and scientific advancement of the Nation. Trade secret law promotes the sharing of knowledge, and the efficient operation of industry; it permits the individual inventor to reap the rewards of his labor by contracting with a company large enough to develop and exploit it. Congress, by its silence over these many years, has seen the wisdom of allowing the States to enforce trade secret protection. Until Congress takes affirmative action to the contrary, States should be free to grant protection to trade secrets.

416 U.S. at 493.

tion by requiring the licensee "to pay the consideration which it promised in return for the use of a novel device which enabled it to pre-empt the market." *Id.* at 264; *see Kewanee Oil Co.*, 416 U.S. at 486.

Aronson recognized that if a patent had issued, the five percent royalty obligation would have been limited to seventeen years after the issuance of the patent:

> It is quite true that had she succeeded, she would have received a 5% royalty only on keyholders sold during the 17-year life of the patent. Offsetting the limited terms of royalty payments, she would have received twice as much per dollar of Quick Point's sales, and both she and Quick Point could have licensed any others who produced the same keyholder. Which course would have produced the greater yield to the contracting parties is a matter of speculation; the parties resolved the uncertainties by their bargain.

440 U.S. at 263-64. This Court did not discuss trade secret rights, *i.e.*, the two and one-half percent royalty obligation, after expiration of the patent, assuming it had issued.

Thus, in neither *Brulotte* nor *Aronson* was the question decided whether trade secret rights in an agreement licensing trade secrets and subsequently issued patents survive the expiration of the patents. If, as here, trade secrets are licensed separately from and are in existence prior to the issuance of patents, an inventor should not forfeit his trade secret rights under state law after issuance of patents. Given the uncertain patentability of any invention, the law should encourage an inventor to develop and license trade secrets without fear of loss of state law protection upon the subsequent issuance of patents. This encouragement will also enable a manufacturer to take advantage of the head start resulting from confidential disclosure of trade secrets. Resolution of these important issues by this Court will affect all hybrid agreements.

Accordingly, it is respectfully submitted that this Court should grant a writ of certiorari to resolve the important question of federal law which has not been, but should be, settled by this Court concerning agreements which license trade secrets and subsequently issued patents.

2. The Refusal to Permit Arbitration Conflicts with Decisions of Other Circuits and Is Inconsistent with Decisions of this Court

The Eleventh Circuit, as noted at p. 6-7, *supra*, held that the hybrid agreements each expired on the date of the last-to-expire patent relating thereto and agreed with the district court that the determination of Mestre's reversionary interests in his trade secrets after the expiration of the agreements is a question of New York law reserved for trial. The Eleventh Circuit having disposed of the federal patent law issue, only questions of New York law remain to be resolved.[6]

The Eleventh Circuit declined jurisdiction to review the district court's refusal to dissolve the injunction against arbitration on the ground that Mestre had no "overriding intent" (App. A at 17) to appeal the issue.[7] Nevertheless, the Eleventh

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6 No matter how this Court might resolve the first question herein (pp. 7-10, *supra*) on the merits, the sole issues remaining would involve only New York law. Thus, if this Court were to hold that Mestre's trade secret rights in the hybrid agreements prior to expiration of the agreements survive the patents, such rights would be governed by New York law. On the other hand, if this Court were to affirm the Eleventh Circuit, the determination of Mestre's reversionary rights would also be governed by New York law.

7 The issue of arbitrability was properly before the Eleventh Circuit because the district court's denial of Mestre's motion for summary judgment deprived Mestre of arbitration, and the denial is expressly referred to in the Notices of Appeal. (App. G) Accordingly, the Eleventh Circuit did not need to consider the issue of Mestre's intent. However, even if jurisdiction depended on this issue, there is ample evidence of such intent. *See* pp. 5-7, *supra*; *Comfort Trane Air Conditioning Co. v. Trane Co.*, 592 F.2d 1373, 1390 n.15 (5th Cir. 1979); *United States v. Stromberg*, 227 F.2d 903, 904 (5th Cir. 1955). To the extent that the word "arbitration" does not appear in

(footnote continued on following page)

Circuit observed that the state law issues remaining for trial are "too intertwined with federal law and policy to be arbitrable." (App. A at 18 n.17).

Notwithstanding the fact that no issues apart from Mestre's trade secret rights under state law remain in this case, the Eleventh Circuit, following the precedents of the Fifth Circuit, held, in effect, that where federal and state law questions are intertwined, there is an exception to the arbitration policy established by the United States Arbitration Act, 9 U.S.C. ¶ 1 *et seq*. *See Miley v. Oppenheimer & Co.*, 637 F.2d 318, 334-37 (5th Cir. 1981); *Sibley v. Tandy Corp.*, 543 F.2d 540, 543 (5th Cir. 1976), *cert. denied*, 434 U.S. 824 (1977). *Accord*, *Belke v. Merrill Lynch, Pierce, Fenner & Smith*, 693 F.2d 1023, 1026 (11th Cir. 1982). This refusal to permit arbitration of state law issues conflicts with the decisions of other Circuits and is inconsistent with decisions of this Court.

The Seventh and District of Columbia Circuits have disagreed with the Fifth Circuit by holding that the doctrine of intertwining merely controls the order of adjudications so as to preserve federal jurisdiction over non-arbitrable federal issues. *Dickinson v. Heinhold Securities, Inc.*, 661 F.2d 638, 643-46 (7th Cir. 1981); *Lee v. Ply*Gem Industries, Inc.*, 593 F.2d 1266, 1274-75 (D.C. Cir.), *cert. denied*, 441 U.S. 967 (1979). In the view of these Circuits, the presence of federal and state law issues does not prevent arbitration of the state law issues. *Dickinson*, *supra*, 661 F.2d at 644; *Lee*, *supra*, 593 F.2d at 1275; *see also Helfenbein v. International Industries, Inc.*, 438 F.2d 1068, 1070-71 (8th Cir.), *cert. denied*, 404 U.S. 872 (1971); *American Safety Equipment Corp. v. J. P. Maguire & Co.*, 391 F.2d 821, 828 (2d Cir. 1968).

The decisions of the Eleventh and Fifth Circuits are also inconsistent with the decisions of this Court implementing the federal policy embodied in the United States Arbitration Act.

Mestre's Notices of Appeal (App. G), this was a mere technicality and did not prejudice Pitney Bowes, which fully briefed the issue of arbitrability before the Eleventh Circuit. *See Foman v. Davis*, 371 U.S. 178, 181 (1962) (notices of appeal should not be dismissed on "mere technicalities").

This is particularly true where, as here, no federal law issues remain to be decided. In *Scherk v. Alberto-Culver Co.*, 417 U.S. 506 (1974), this Court rejected the contention that the presence of federal law questions prevented enforcement of an agreement to arbitrate a dispute arising out of a commercial contract and held that:

> A contractual provision specifying in advance the forum in which disputes shall be litigated and the law to be applied is, therefore, an almost indispensible precondition to achievement of the orderliness and predictability essential to any international business transaction.

Id. at 516; *see Prima Paint Corp. v. Flood & Conklin Manufacturing Co.*, 388 U.S. 395, 400-04 (1967).

Recently, in *Moses H. Cone Memorial Hospital v. Mercury Construction Corp.*, ___ U.S. ___, 103 S. Ct. 927, 941-42 (1983), this Court once again took notice of the "liberal federal policy favoring arbitration agreements" embodied in the United States Arbitration Act and held that the Act establishes as a matter of federal law that "any doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration, whether the problem at hand is the construction of the contract language itself or an allegation of waiver, delay, or a like defense to arbitrability."[8]

In contrast with the decisions of this Court and other Circuits, by foreclosing arbitration of state law issues, the decision below, if left standing, ignores the agreement of the parties and defeats federal policy.

Accordingly, it is respectfully submitted that this Court should grant a writ of certiorari to resolve the conflict in the Circuit Courts and to ensure implementation of federal policy favoring arbitration of state law issues in cases in which federal law issues have been resolved.

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8 This Court cited with approval, among other cases, *Dickinson*, *supra*, 661 F.2d at 643, in holding that federal policy favored giving effect to arbitration agreements.

CONCLUSION

For the foregoing reasons, this petition for a writ of certiorari should be granted.

Dated: August 11, 1983

Respectfully submitted,

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APPENDIX A

UNITED STATES COURT OF APPEALS
ELEVENTH CIRCUIT

No. 81-5749

April 4, 1983

PITNEY BOWES, INC.,

Plaintiff-Appellant,
Cross-Appellee,

v.

CELINA MESTRE, Personal Representative of
The Estate of Luis Mestre, deceased,

Defendant-Appellee,
Cross-Appellant.

Appeals from the United States District Court for the Southern District of Florida.

Before:

RONEY and JOHNSON, *Circuit Judges,*
and DYER, *Senior Circuit Judge.*

JOHNSON, *Circuit Judge:*

Pitney Bowes, Inc. brought this action under 28 U.S.C.A. §§ 2201, 2202, seeking a declaration as to its rights and

obligations under royalty agreements entered into with Luis Mestre,[1] an inventor of paper collating machines. In its complaint, Pitney Bowes also sought an injunction against Mestre to prevent him from seeking arbitration under the agreements. The district court granted the injunction. *Pitney Bowes, Inc. v. Mestre,* 203 U.S.P.Q. 554 (S.D. Fla. 1978). Following discovery, Mestre moved for summary judgment; Pitney Bowes responded with a cross-motion for summary judgment. The district court denied Mestre's motion and granted Pitney Bowes' motion in part. *Pitney-Bowes, Inc. v. Mestre,* 517 F.Supp. 52 (S.D. Fla. 1981).[2] Both Pitney Bowes and Mestre appeal.

I.

The subject of this appeal concerns five agreements entered into on the following dates:

(1) Rotary Collator Agreement—October 3, 1958;

(2) Vertical Collator Agreement—October 16, 1959;

(3) A-10 Collator Agreement—September 1, 1962;

(4) Auto-Sorter Agreement—December 30, 1965; and

(5) Amendment to the Agreements—December 30, 1965.[3]

As their names suggest, each of the first four agreements licensed the right to manufacture and sell a different paper

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1 Luis Mestre died during the pendency of this litigation. His wife, Celina Mestre, was substituted as a personal representative of his estate. For convenience, all references in this opinion to Mestre are in the masculine.

2 Although the opinion below spells "Pitney Bowes" with a hyphen, we follow the style as it appears on the district court's docket sheet and as Pitney Bowes referred to itself in its papers to the district court.

3 The agreements were entered into by Mestre and Thomas Collators Industries, Inc. Pitney Bowes acquired Thomas Collators Industries shortly after the 1965 Amendment Agreement and succeeded to the rights contained in the four prior agreements and the Amendment Agreement.

handling machine. In exchange, Mestre received the right to royalties on each machine manufactured and sold. Mestre had applied for patents on the machines prior to the execution of each agreement, and in each case patents were granted sometime after each agreement went into effect. In its complaint filed in district court, Pitney Bowes contended that each agreement licensed both patent rights and trade secrets[4] in the machines. Mestre disputed this as to the Rotary Collator Agreement, arguing that it licensed only trade secrets. In addition to this issue, the parties dispute: the expiration dates of the agreements; whether Mestre is entitled to payments from Pitney Bowes after the agreements expire; and the propriety of the district court's injunction against arbitration.

In its summary judgment opinion, in order to determine expiration dates, the district court analyzed each agreement separately. With regard to the Rotary Collator Agreement, the court agreed with Mestre that it licensed only trade secrets.[5] Accordingly, federal patent law did not apply and the question of expiration was solely a matter of state contract law. The agreement, as amended by the 1965 Amendment Agreement, provided for expiration after 17 years or after the last patent on the Rotary Collator expired, whichever was later. Because the court could not discern from the face of the agreement or the undisputed facts whether the 17-year period started in 1958, when the original agreement was signed, or in 1965, when the Amendment Agreement added the expiration provisions, the court denied summary judgment as to the Rotary Collator Agreement and reserved the question of its expiration date for trial.

The 1959 Vertical Collator Agreement provided for expiration on the date of Mestre's death, on the date of the last patent to expire, or after 17 years, whichever was latest. The

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4 For purposes of this litigation, the district court treated trade secrets as interchangeable with know-how, 517 F.Supp. at 54 n. 1a, and we do the same.

5 *But see* note 13 *infra*.

district court held that the Vertical Collator Agreement, unlike the Rotary Collator Agreement, licensed both patent rights and trade secrets. The Court then applied federal patent law to determine the expiration date of the agreement on the ground that the presence of patent rights in the agreement implicates federal law. Relying on the federal patent case of *Brulotte v. Thys Co.*, 379 U.S. 29, 85 S.Ct. 176, 13 L.Ed.2d 99 (1964), in which the Supreme Court held unenforceable a royalty agreement providing for payments for patent rights after the patents expired, the district judge held that the Vertical Collator Agreement necessarily expired when the last patent on the Vertical Collator expired. The effect of this holding was to cut short the life of the agreement as written, because Mestre died after the last patent expired. The expiration date having been determined as a matter of law, no issue of fact remained for trial on the claim under the Vertical Collator Agreement.

The district court held that the A-10 Collator Agreement and the Auto-Sorter Agreement also licensed both patent rights and trade secrets and thus were hybrid agreements. These two agreements provided for expiration when the last patent expired or after 17 years, whichever was later. Because they licensed patent rights, federal patent law again was relevant to the determination of the expiration dates of the agreements. This time, however, the *Brulotte* case did not shorten the life of the agreements because the last patent on each machine expired after the 17-year periods expired. No questions of fact remained for trial as to either of these agreements and neither party questions the court's judgment as to them on appeal.

The final issue addressed in the district court's summary judgment opinion concerned the rights of the parties after the agreements expired. The court concluded that Pitney Bowes had a right to continue manufacturing and selling the machines after the agreements expired, but it also held that there remained a question of disputed fact as to whether, under state trade secret law, Mestre owned a reversionary right to ongoing payments from Pitney Bowes. Accordingly, the court denied summary judgment on the claim concerning Mestre's post-expiration rights, reserving it for trial.

Following the court's decision, Mestre moved for reconsideration of the denial of his summary judgment motion and moved to vacate the court's earlier order enjoining arbitration. Pitney Bowes also moved for reconsideration insofar as its summary judgment motion had been denied in part. On June 17, 1981, the district court denied all three motions, entered partial final judgment in accordance with its earlier summary judgment decision, and certified its judgment for appeal in accordance with Rule 54(b) of the Federal Rules of Civil Procedure.[6] Pitney Bowes then filed a notice of appeal, citing as reversible error the failure of the district court to grant summary judgment in its favor that 1) the Rotary Collator Agreement included a patent license and therefore was subject to federal patent law; and 2) after expiration of the agreements, Pitney Bowes is entitled to continue manufacturing and selling the collating machines without making payments to Mestre. Mestre also filed a notice of appeal, citing as error, *inter alia,* the district court's summary judgment in favor of Pitney Bowes on the claim under the Vertical Collator Agreement. Mestre's notice does not specifically mention the district court's denial of his motion to dissolve the injunction against arbitration, but in his briefs to this Court he attempts to raise it as another issue on appeal.[7]

II.

Although neither party raises the issue in its briefs, we find a substantial question as to whether we may entertain Pitney Bowes' appeal at this point in the litigation. Because the issues raised by Pitney Bowes—concerning the expiration date of the

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6 The court denied a motion by Pitney Bowes to certify the judgment for appeal under 28 U.S.C.A. § 1292(b).

7 Following the court's June 17 order, Mestre suggested that the district court had failed to enter judgment as required under Rule 54(b). The court entered partial final judgment on August 21, 1981. Both parties filed notices of appeal from the August order that were almost identical to the notices filed from the June order.

Rotary Collator Agreement and the post-expiration right of Mestre to trade secret payments—were not disposed of by final judgment below, we hold that we lack jurisdiction to consider them.

It is well established that the denial of a motion for summary judgment is not a final decision under 28 U.S.C.A. § 1291. A final decision is "one which ends the litigation on the merits and leaves nothing for the court to do but execute the judgment." *Catlin v. United States,* 324 U.S. 229, 233, 65 S.Ct. 631, 633, 89 L.Ed. 911 (1945). An order denying summary judgment amounts to a decision that the claim remains pending for trial and is therefore interlocutory. *See, e.g., Jones v. St. Paul Fire & Marine Insurance Co.,* 108 F.2d 123, 125 (5th Cir. 1939); 6 J. Moore & J. Wicker, *Moore's Federal Practice* ¶ 56.21[2] (2d ed. 1982).

A court presented with several claims may under Rule 54(b) of the Federal Rules of Civil Procedure direct the entry of final judgment as to fewer than all of the claims "upon an express determination that there is no just reason for delay and upon an express direction for the entry of judgment." However, a certification of final judgment cannot for purposes of appeal render final a judgment which is interlocutory. The requirement of finality still applies, with the question of appealability turning on whether the entry of judgment completely disposes of one of the claims. *See, e.g., Sears, Roebuck & Co. v. Mackey,* 351 U.S. 427, 435, 76 S.Ct. 895, 899-900, 100 L.Ed. 1297 (1956); *National Corn Growers Ass'n v. Bergland,* 611 F.2d 730, 732 (8th Cir. 1980); *Spencer, White & Prentis, Inc. v. Pfizer, Inc.,* 498 F.2d 358, 362-63 (2d Cir. 1974); J. Moore & J. Wicker, *supra,* ¶ 56.20[4]. An order only partially disposing of a single claim does not finally determine the claim and thus is interlocutory. *Id.; New Amsterdam Casualty Co. v. B.L. Jones & Co.,* 254 F.2d 917, 919 (5th Cir. 1958).

In its summary judgment decision, the district court reserved for trial substantial questions of fact which precluded entry of final judgment on both claims that Pitney Bowes appeals. Concerning the claim under the Rotary Collator Agreement, the district court reserved for trial the factual question of

whether the 17-year period specified in the expiration clause commenced in 1958 or 1965. Because the court did not dispose of the Rotary Collator Agreement claim by summary judgment, we cannot address the issues surrounding its expiration date until after trial and entry of final judgment. With regard to Pitney Bowes' claim concerning the post-expiration right of Mestre to trade secret payments, the court reserved for trial the question of whether, under state trade secret law, a post-expiration contract between Pitney Bowes and Mestre can be implied. As with the claim under the Rotary Collator Agreement, we cannot address Pitney Bowes' contention regarding Mestre's post-expiration rights until the district court enters final judgment.

We do, however, have jurisdiction to decide Mestre's first contention on appeal. The district court's judgment that the Vertical Collator Agreement expired when the last patent on the Vertical Collator expired stands on a different footing than the rest of the summary judgment order. By determining that federal patent law conclusively established its duration, the court effectively ended the litigation as to the claim under the Vertical Collator Agreement.[8] Assuming that the Rule 54(b) certification was proper, the claim became appealable upon the entry of partial final judgment.

We are not bound by the district court's Rule 54(b) certification that the judgment on the Vertical Collator Agreement

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8 For purposes of Rule 54(b), we count the claim under the Rotary Collator Agreement as one claim among several claims raised by Pitney Bowes. Thus, this case meets the requirement of Rule 54(b) that the court finally determine at least one claim among multiple claims. *See Rieser v. Baltimore & Ohio RR Co.*, 224 F.2d 198, 199 (2d Cir. 1955) (denial of motion to dismiss appeal) ("The ultimate determination of multiplicity of claims must rest in every case of whether the underlying factual bases for recovery state a number of different claims which could have been separately enforced."), *aff'g district court on merits*, 228 F.2d 563 (2d Cir. 1955), *cert. denied*, 350 U.S. 1006, 76 S.Ct. 651, 100 L.Ed. 868 (1956), *quoted with approval in* 10 C. Wright, A. Miller & M. Kane, *Federal Practice and Procedure* § 2656, at 65 (1983).

claim is final, *United States v. Crow, Pope and Land Enterprises, Inc.*, 474 F.2d 200, 202 (5th Cir. 1973), but in Rule 54(b) cases, "the discretionary judgment of the District Court should be given substantial deference." *Curtiss-Wright Corp. v. General Electric Co.*, 446 U.S. 1, 10, 100 S.Ct. 1460, 1466, 64 L.Ed.2d 1 (1980). The district court justified its certification order with the finding that the unadjudicated claims are "practically and logically distinct" from the adjudicated claims as to the application of law and proof. We cannot say that the court's finding is "clearly unreasonable," *id.*, given the fact that the four agreements between Pitney Bowes and Mestre are independent of each other and that the claim to post-expiration rights raises entirely different considerations from the claims under the express agreements. The district court also found that:

> Judicial economy favors immediate review as to the adjudicated claims and the parties favor such review. At the very least, to attempt to try the issue of implied reversionary rights under circumstances wherein express contract rights have not been settled would maximize the likelihood of separate trials and be unduly expensive to all parties.

Neither party questions this finding. Accordingly, we hold that the requirements of Rule 54(b) have been met. The question of the duration of the Vertical Collator Agreement being properly before us, we turn next to a discussion of the merits of the district court's judgment on that issue.

III.

The Vertical Collator Agreement, the second agreement negotiated by Thomas Collators Industries and Mestre, provided for the payment of royalties to Mestre in exchange for the "sole and exclusive right" to manufacture and market the Vertical Collator as described in then-pending patent applica-

tions.[9] As with the other agreements, although no patents had been issued on the Vertical Collator at the time the agreement was signed, patents subsequently were issued. The agreement contained an acknowledgement of the importance of Mestre's know-how in the machine,[10] and another provision required Thomas Collators Industries and its assignees and sublicensees to keep secret all confidential information concerning the Vertical Collator.[11] Reciting these provisions, the district court agreed with Mestre and Pitney Bowes that the Vertical Collator Agreement licensed both patent rights and trade secrets and thus was a "hybrid" agreement.

As mentioned above, the Vertical Collator Agreement by its terms expired on the latest of three dates: the date of death of Mestre, after 17 years, or when the last patent on the machine

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9 Article I of the agreement contained the license:

The License

Mestre hereby grants to Thomas, its successors and assigns, the sole and exclusive right and license to make, manufacture, have made or manufactured by others, use, import, export, sell and deal in the Vertical Collator specifically described in said patent applications and any and all modifications thereof and improvements thereon that Mestre may hereafter make or develop and under any letters patent which may issue thereon and, subject to the obtaining of Mestre's prior written consent, to sublicense others to do so, within the United States of America, its territories and possessions, and in foreign countries throughout the world.

10 The second "whereas" clause provided:

WHEREAS, Thomas has begun the manufacture and development for sale of the Vertical Collator solely by virtue of Mestre's disclosure to it of the principles thereof and his transfer to it of necessary manufacturing and technical "know-how" necessary for the commercial production thereof.

11 Article II(e) provided in pertinent part:

No manufacturer shall be employed by Thomas, its assignees or sublicensees to manufacture the Vertical Collator, or such substantial components thereof as are likely to develop knowledge of the essential elements of the manufacture thereof, unless such manufacturer shall first agree in writing to keep secret all confidential information relating to the Vertical Collator, parts thereof or attachments thereto.

expired. Mestre died April 6, 1980, the 17-year period expired October 16, 1976, and the last patent expired October 17, 1978—so by its terms the agreement should have expired April 6, 1980. However, Pitney Bowes, by letter of February 28, 1979, notified Mestre that in its view the Vertical Collator Agreement expired October 17, 1978. The district court, citing *Brulotte v. Thys Co.*, 379 U.S. 29, 85 S.Ct. 176, 13 L.Ed.2d 99 (1964), agreed with Pitney Bowes.

In *Brulotte*, the owner of patents relating to hop-picking machines sold machines to farmers for a flat sum. With each sale the patent owner also issued a use license which required the payment of royalties for a period continuing after the patent expired. When the farmers refused to make payments, the patent owner sued. The farmers raised the defense of patent misuse insofar as the agreement extended beyond the expiration dates of the patents. Justice Douglas, writing for the Court, first reviewed the purposes of federal patent law and suggested that one purpose was to ensure that patented ideas enter the public domain upon the expiration of the 17-year period of protection accorded patent owners. At the end of the period, a "free market" was visualized in which the patent holder's monopoly influence would have "no proper place." *See* 379 U.S. at 30-33, 85 S. Ct. at 178-179. As to the hop-picking machine use licenses, two of their provisions suggested that the patent owner had improperly exerted his patent monopoly influence over the farmers. First, the license agreements prevented assignment or removal of the machines from their locations either before or after the patents expired. While such restrictions were "pertinent to protection of the patent monopoly," their continuation after the patents expired was "a telltale sign that the licensor was using the licenses to project its monopoly beyond the patent period." *Id.* at 32, 85 S.Ct. at 179. The second sign of patent misuse was that the royalties due after the patents expired were identical in amount to the royalties owed before expiration. After pointing out these facts, the Court concluded:

> The present licenses draw no line between the term of the patent and the post-expiration period. The same provi-

> sions as respects both use and royalties are applicable to each. The contracts are, therefore, on their face a bald attempt to exact the same terms and conditions for the period after the patents have expired as they do for the monopoly period. We are, therefore, unable to conjecture what the bargaining position of the parties might have been and what resultant arrangement might have emerged had the provision for post-expiration royalties been divorced from the patent and nowise subject to its leverage.
>
> In light of those considerations, we conclude that a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se.

Id. See also Pipkin v. FMC Corp., 427 F.2d 353, 357 (5th Cir.1970).

Mestre contends that the district court should not have applied *Brulotte* and that *Brulotte* is distinguishable on the ground that the royalty payments in that case were solely for patent rights. The Vertical Collator Agreement, on the other hand, licensed both patent rights and trade secrets. In *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 99 S.Ct. 1096, 59 L.Ed.2d 296 (1979) and *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 94 S.Ct. 1879, 40 L.Ed.2d 315 (1974), the Supreme Court held that trade secret agreements are protected by state law and are not subject to federal preemption by virtue of federal patent law. Focusing on the trade secret aspect of the Vertical Collator Agreement, Mestre argues that *Aronson* and *Kewanee* require us to enforce the agreement as written. Otherwise, we would deprive him of his contractual right to eighteen-months' worth of trade secret payments merely because he happened to apply for and obtain patents on the Vertical Collator.

We disagree with Mestre's interpretation of *Brulotte*. As we understand his argument, he contends that the holding in *Brulotte* should be limited to agreements licensing only patent rights; if state-protected non-patent rights such as trade secrets are also licensed, courts should enforce the agreement beyond the expiration of the patent on the ground that post-expiration

payments are intended for the non-patent rights. Such an interpretation of *Brulotte* is faulty for two reasons.

First, it ignores the facts of *Brulotte*. The licenses in that case were for "use," which encompasses more than just patent rights. As the Court's opinion noted, *see* 379 U.S. at 32, 85 S.Ct. at 179, a use license could be issued for unpatented machines—although it would be enforced under state rather than federal law. The *Brulotte* licenses therefore were, like the Vertical Collator Agreement before us, hybrid licenses for both patent and non-patent consideration. If Mestre's argument-that non-patent consideration in a licensing agreement renders *Brulotte* inapplicable—were correct, then the Court in *Brulotte* would have enforced the use licenses beyond the expiration of the patents. Instead, the Court cut off both the patent and non-patent royalties.

The contention that *Brulotte* does not apply to hybrid agreements is also refuted by dictum in *Aronson v. Quick Point Pencil Co., supra. Aronson* involved a royalty agreement covering both patent rights and trade secrets in a newly designed keyholder. At the time the agreement was entered into, the licensor had applied for, but not obtained, patents on the keyholder design. The agreement provided for a royalty of 5% of keyholder sales for as long as sales continued, but it also provided for a reduction of royalties to 2 and ½% if no patent issued within five years. No patent issued within that time and the manufacturer reduced his royalty payments accordingly. Nineteen years after the parties entered into the agreement, the manufacturer filed an action seeking a declaratory judgment that the agreement was unenforceable. The district court upheld the agreement as written. The court of appeals reversed, holding that the federal patent policy in favor of "the full and free use of ideas in the public domain" required that the manufacturer be relieved of its royalty obligations. Citing *Brulotte,* the court of appeals observed that, had a patent issued on the keyholder design, the entire royalty obligation would have ceased at the completion of the 17-year patent term, notwithstanding the terms of the agreement. *Quick Point Pencil Co. v. Aronson*, 567 F.2d 757, 762 (8th Cir. 1977). The

Supreme Court reversed the court of appeals, holding that federal patent law does not preempt state trade secret law where no patent issues. On this ground, it held that the agreement was enforceable as written. But the Court specifically noted the court of appeals' *Brulotte* conclusion, 440 U.S. at 261, 99 S.Ct. at 1098-1099, and at a later point in its opinion even agreed that, if a patent had issued, all royalty obligations would have ceased after 17 years. We find this significant because it clearly indicates that the Supreme Court is willing under certain circumstances to apply *Brulotte* to terminate royalty rights under a hybrid agreement licensing patent rights and trade secrets.

The second ground upon which we fault Mestre's interpretation of *Brulotte* is that it misstates the relationship between state trade secret law and federal patent law. While it is true that *Aronson* and *Kewanee* constitute support for enforcement of state trade secret law against possible claims of federal preemption, we do not believe that the Supreme Court necessarily intended full trade secret protection when patents actually issue. In *Kewanee,* no patent was ever applied for; in *Aronson,* the Court emphasized the fact that, although a patent was applied for, none was ever granted. When a patent issues, the potential exists for direct conflict between federal patent law and state trade secret law. When such a conflict occurs, the question is no longer one of federal preemption; it is instead one of federal supremacy.[12]

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12 This does not mean that parties cannot agree to license both trade secrets and patent rights on patents actually issued. As the Court in *Kewanee* noted, the purposes of patent protection and trade secret protection usually are entirely different, and the enforcement of trade secrets need not necessarily undermine federal patent policy. *See* 416 U.S. 479-93, 94 S.Ct. at 1885-1892. But if and when their purposes conflict directly, federal supremacy requires that federal patent law determine the rights under the agreement.

Pitney Bowes does not contend that all hybrid agreements providing for post-patent-expiration payments necessarily raise a direct conflict with federal patent laws. Instead, it argues that the defect in the Vertical Collator Agreement is its failure to allocate payments between trade secrets and patent

With these general considerations in mind, we turn to an analysis of the Vertical Collator Agreement. As in *Brulotte*, two provisions in the agreement suggest that the patentee used the leverage of his patent to project its monopoly beyond the 17-year patent period. First, the "exclusive rights" granted under the agreement applied equally before and after expiration of the patent. Like the assignment and removal restrictions on the hop-picking machines in *Brulotte*, the grant of exclusive rights is "pertinent to protection of the patent monopoly," but its "applicability to the post-expiration period is a telltale sign that the licensor was using the license to project its monopoly beyond the patent period." 379 U.S. at 32, 85 S.Ct. at 179. Second, the agreement required Pitney Bowes to pay royalties at the same rate and on the same basis after the patents expired that it paid while the patent was in effect. Assuming that the value of the agreement to Pitney Bowes was not as high after the patents expired, it is reasonable to assume

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rights. Citing *Veltman v. Norton Simon, Inc.*, 425 F.Supp. 774, 776 (S.D.N.Y. 1977), it suggests that, had the parties to the agreement undertaken such an allocation, reduced payments for trade secrets after the patents expired might not have directly conflicted with federal patent law and therefore might have been permissible. The district court seems to have adopted this view. *See* 517 F.Supp. at 61 & n. 19, 63. *See also Modrey v. American Gage & Machine Co.*, 339 F.Supp. 1213, 1217-18 (S.D.N.Y. 1972) (agreement providing for reduced royalties of 3% after patent expires does not violate *Brulotte*). In light of our conclusion *infra* that the Vertical Collator Agreement violates federal patent law, and the fact that there is no allocation in the agreement, we need not decide whether allocation—or some similar provision—would have rendered it enforceable. Indeed, the Supreme Court has never addressed the question whether a hybrid agreement in which patents issue can ever survive the expiration of the patents. The court in *Brulotte*, however, applied a *per se* rule to agreements containing the same terms before and after the patent expires because it was "unable to conjecture what the bargaining position of the parties might have been" had no patent been involved. 379 U.S. at 32, 85 S.Ct. at 179. The implication of this language is that, if a patent owner can prove that he did not use his patent monopoly leverage to exact reduced post-expiration trade secret payments, then there would be no direct conflict with federal law and the agreement would be enforced.

that at least some part of the post-expiration payment constituted an effort to extend payments for patent rights beyond the patent period. Thus, we conclude that the Vertical Collator Agreement is unenforceable under *Brulotte*.[13]

IV.

The second issue raised in Mestre's appeal concerns the district court's injunction against arbitration. Pitney Bowes argues that we lack jurisdiction to consider this issue. In light of Mestre's failure to include any mention of the injunction in his notice of appeal, we agree.

Mestre could have appealed the injunction under 28 U.S.C.A. § 1292(a)(1) within thirty days of the date it was first entered in November 1978. *See* Fed.R.App.P. 4(a).[14] Pitney Bowes argues that, because Mestre failed to appeal then, he must now wait until the end of the litigation to appeal the injunction. *Gloria Steamship Co. v. Smith*, 376 F.2d 46, 47 (5th Cir. 1967), holds that an appealable interlocutory order

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13 At oral argument, Mestre conceded that the Rotary Collator Agreement was a hybrid agreement licensing both patent rights and trade secrets—just like the other three licensing agreements. Despite our holding that we do not have jurisdiction to consider the appeal as to the Rotary Collator Agreement, the district court may choose to accept this concession; if so, *Brulotte* would apply to the Rotary Collator Agreement in the same manner as it does to the Vertical Collator Agreement. Thus, the Rotary Collator Agreement would expire on the date that the last patent on the Rotary Collator expired, and the question reserved for trial—namely, the starting date of the 17-year period identified in the amended expiration clause of the Rotary Collator Agreement—would be rendered moot.

14 Although the rule in the Second Circuit is that an order granting or denying an injunction against arbitration is not appealable under § 1292(a)(1), *see Greater Continental Corp. v. Schecter*, 422 F.2d 1100 (2d Cir. 1970), the former Fifth Circuit chose to adopt the contrary rule of *A. & E. Plastik Pak Co. v. Monsanto Co.*, 396 F.2d 710 (9th Cir. 1968) in *Petroleum Helicopters, Inc. v. Boeing-Vertol Co.*, 606 F.2d 114 (5th Cir. 1979). *See also* 9 J. Moore, B. Ward & J. Lucas, 9 *Moore's Federal Practice* ¶ 110.20[4.-1], at 248-49 (2d ed. 1982).

may be appealed when first entered or when the final decree is entered, and Pitney Bowes relies on this case to support its argument that we should decline jurisdiction until the district court finally disposes of the case. *See also Caradelis v. Refineria Panama, S.A.*, 384 F.2d 589, 591 n. 1 (5th Cir. 1967). But neither *Gloria Steamship* nor *Caradelis* involved interlocutory injunctions. Section 1292(a)(1) grants, in addition to a right of appeal from orders granting or refusing injunctions, a right of appeal from orders "refusing to dissolve or modify injunctions."[15] When Mestre moved for reconsideration of the district court's summary judgment decision, he also moved that the court remand the case to arbitration, thus effectively requesting that the injunction be dissolved. The district court's June 17, 1981, order denied both motions, so Section 1292(a)(1) provided Mestre with a second opportunity to appeal the order without having to await the final decree.

Pitney Bowes also points out that Mestre violated Rule 3(c) of the Federal Rules of Appellate Procedure by failing to state in his notice of appeal that he intended to appeal from the injunction order. This is, Pitney Bowes urges, an independent reason that we lack jurisdiction to review it. *See Cole v. Tuttle*, 540 F.2d 206 (5th Cir. 1976); *Alabama Labor Council v. State of Alabama*, 453 F.2d 922 (5th Cir. 1972).[16] Mestre, on the

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15 28 U.S.C.A. § 1292(a)(1) grants courts of appeals jurisdiction from:

> Interlocutory orders of the district courts of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, and the District Court of the Virgin Islands, or of the judges thereof, granting, continuing, modifying, refusing or dissolving injunctions, or refusing to dissolve or modify injunctions, except where a direct review may be had in the Supreme Court.

16 In addition, Pitney Bowes cites the fact that the court's Rule 54(b) certification did not mention the injunction. But in *Gray Line Motor Tours, Inc. v. City of New Orleans*, 498 F.2d 293 (5th Cir. 1974), the court noted that it is unnecessary to

> obtain a certification under 54(b) if the order entered by the district court falls under section 1292(a)(1). Injunctive orders then are considered to be outside the scope of Rule 54(b). Wright and Miller, Federal Practice and Procedure, Vol. 10, § 2658. To hold otherwise would

other hand, contends that his intent to appeal the injunction was clear because he referred to the order which, among other things, denied the motion to dissolve the injunction. While it is true that the notice referred to that order, the notice specifically stated that the appeal was only "from those portions" of the order that dealt with issues raised in the summary judgment motions. In fact, the notice made that clear by specifically listing each issue on summary judgment; the injunction, which was not one of the issues dealt with on summary judgment, was not listed.

We cannot treat an omission of this nature as an excusable mistake. The former Fifth Circuit in *Kicklighter v. Nails by Jannee, Inc.*, 616 F.2d 734, 738 n. 1 (5th Cir. 1980), stated that "it is well settled that an appeal is not lost if a mistake is made in designating the judgment appealed from where it is clear that the 'overriding intent was effectively to appeal.' " (quoting *United States v. Stromberg*, 227 F.2d 903, 904 (5th Cir. 1955)). *See also Foman v. Davis*, 371 U.S. 178, 181, 83 S.Ct. 227, 229, 9 L.Ed.2d 222 (1962) (courts of appeal should not dismiss notices of appeal on grounds amounting to "mere technicalities"). But here we find no "overriding intent" to appeal the injunction. If anything, by specifically listing only the non-injunction issues, Mestre indicated his intent *not* to appeal the injunction. In *C.A. May Marine Supply Co. v. Brunswick Corp.*, 649 F.2d 1049 (5th Cir.), *cert. denied*, 454 U.S. 1125, 102 S.Ct. 974, 71 L.Ed.2d 112 (1981), the court faced a similar situation and held that it did not have jurisdiction to decide the omitted portion of the judgment:

> Where the appellant notices the appeal of a specified judgment only or a part thereof, however, this court has no jurisdiction to review other judgments or issues which

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mean that the application of the Interlocutory Appeals Statute would be subject to the district judge's discretion to enter an order and certify and this we find would be contrary to the spirit of the statute. Wright and Miller, Federal Practice and Procedure, § 2962, p. 613.

Id. at 295 n. 1.

> are not expressly referred to and which are not impliedly intended for appeal. See *Elfman Motors, Inc. v. Chrysler Corp.*, 567 F.2d 1252 (3d Cir. 1977); *Symons v. Mueller Co.*, 526 F.2d 13 (10th Cir. 1975). In this situation, because the intent to appeal is not apparent, prejudice to the adverse party is likely to result if review is granted. Where parts of the judgment are truly independent, there is more likelihood that the designation of a particular part in the notice of appeal will be construed as an intent to leave the unmentioned portions undisturbed. *Terkildsen v. Waters*, 481 F.2d 201, 206 (2d Cir. 1973); 9 *Moore's Federal Practice* ¶ 203.18 at 3-78 (2d ed. 1980).

Id. at 1056. The situation before us is also analogous to that in *Cole v. Tuttle, supra*, in which a notice of appeal that specifically listed part of a final judgment, but not an earlier interlocutory order dismissing certain defendants, precluded the appellate court from considering the dismissal order.[17]

V.

For the reasons set out above, we AFFIRM the district court's summary judgment in favor of Pitney Bowes as to the expiration date of the Vertical Collator Agreement. We DISMISS the appeal of Pitney Bowes as to the expiration date of the Rotary Collator Agreement and the post-expiration rights under all four agreements. We also hold that we are without jurisdiction to consider Mestre's arguments against the district court's injunction against arbitration.

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17 Although we do not reach the merits of the district court's order denying Mestre's motion to dissolve the injunction, our discussion of the role of federal patent law in determining the parties' rights amply supports the district court's conclusion that the claims "present issues too intertwined with federal law and policy to be arbitrable." *Pitney Bowes, Inc. v. Mestre*, 203 U.S.P.Q. 554 (S.D. Fla. 1978). Moreover, still before the district court are substantial questions concerning the possible role of federal patent law in determining Mestre's right to post-expiration trade secret payments. *See* 517 F.Supp. at 65 n. 30.

APPENDIX B

UNITED STATES DISTRICT COURT
S.D. FLORIDA, MIAMI DIVISION

No. 78-1097-Civ-SMA

Feb. 12, 1981

PITNEY-BOWES, INC.,

Plaintiff,

v.

Celina MESTRE, Personal Representative of the Estate of Luis Mestre, Deceased,

Defendant.

MEMORANDUM OPINION ON CROSS-MOTIONS FOR SUMMARY JUDGMENT

ARONOVITZ, District Judge.

NATURE OF ACTION

Plaintiff Pitney-Bowes commenced this declaratory relief action pursuant to 28 U.S.C. §§ 2201, 2202, seeking a construction of certain license agreements and a declaration of its rights and obligations under those agreements. The five written agreements in issue were entered into by Defendant Mestre[1]

1 Luis Mestre, the signatory to the agreements and the original named Defendant, passed away during the pendency of these proceedings. By order dated November 24, 1980, *see* Docket No. 133, Celina Mestre was substituted, in her capacity as Personal Representative of the Estate of Luis Mestre, as party Defendant. Reference to Mestre throughout this opinion refers to Luis Mestre.

and Thomas Collators Industries, Inc., a wholly owned subsidiary of Thomas Collators, Inc. (hereinafter collectively referred to as "Thomas"), on the following dates:

(1) the Rotary Collator Agreement—October 3, 1958;

(2) the Vertical Collator Agreement—October 16, 1959;

(3) the A-10 Collator Agreement—September 1, 1962;

(4) the Auto-Sorter Agreement—December 30, 1965; and,

(5) a written Amendment to the Agreements—December 30, 1965.

Pitney-Bowes, as successor in interest to Thomas, specifically seeks a declaration:

1. That each of the four machine agreements, as amended by the 1965 Amendment, expires on the expiration date of the last to expire patent licensed under that agreement;

2. That each agreement is unenforceable after the expiration date of the last to expire patent licensed under that agreement; and

3. That Pitney-Bowes may continue to make, manufacture, use, import, export, sell and deal in the machine that is the subject of the agreement, after expiration of the agreement, without entering into a further agreement with Mestre and without paying further royalties to Mestre.

Mestre, on the other hand, seeks a declaration:

1. That the agreements in dispute are in full force and effect;

2. That the agreements licensed "trade secrets and know-how" and that Pitney-Bowes is obligated to pay royalties to Mestre for as long as it manufactures and sells machines licensed by the agreements; and

3. That an accounting be had and that Pitney-Bowes be required to make all royalty payments presently owing to Mestre.

PROCEDURAL POSTURE

Pitney-Bowes filed this action subsequent to a demand for arbitration made by Mestre. The demand for arbitration asserted, *inter alia*, that Pitney-Bowes was obligated to make royalty payments on the sales of Mestre's licensed machines up to and including the termination date of the license agreements and that Pitney-Bowes could not thereafter manufacture or market the machines unless new agreements were executed. Along with it complaint, Pitney-Bowes also filed a motion to enjoin Mestre from proceeding further in the arbitration proceeding. That motion was granted by Order of this Court dated November 8, 1978, on the grounds that the "claims present issues too intertwined with federal [patent] law and policy to be arbitrable."

The matter is now before the Court on the parties' Cross-Motions for Summary Judgment. On November 12, 1980, the Court heard oral argument on the cross-motions. *See* Fed.R.Civ.P. 56(c). The principal issues raised by the parties have been comprehensively briefed and argued, and, in the view of the Court, those issues can be stated as follows:

1. (a) Whether the agreements in question were licenses for the exclusive use of "trade secrets and know-how" which were not conditioned on the procurement of patents; or

(b) Whether the agreements were patent licenses for the exclusive use of the licensee pursuant to the provisions and policies of federal patent law; or (c) Whether the agreements were hybrid licenses granting rights both to "trade secrets and know-how"[1a] and to claims of patents.

2. Whether the agreements, because of their nature, are subject to federal patent law, which precludes the extension of royalty obligations beyond the life of the last to expire patent licensed under the agreement.

1a While the Court recognizes the definitional differences between "trade secrets" and "know-how", for the purposes of the instant case the distinction is of little moment; therefore, the terms may be used interchangeably in this opinion.

3. Whether the agreements provide that the exclusive rights revert to the licensor at the expiration of the term of each agreement; or whether the licensee is free to manufacture and sell the machines, which were the subject of the license, without royalty obligation after the license expires.

THE PARTIES

Mestre was a renowned inventor of paper handling equipment, including automatic collating devices. In 1954, Mestre designed and later built a prototype of a machine called the Rotary Collator. Some time in 1957, Pitney-Bowes showed an interest in the machine and recognized its potential in the automatic collator market. Pitney-Bowes decided not to seek a license for the machine at that time, apparently because production costs were too high. Additionally, Pitney-Bowes estimated that three years of development work would be necessary before the Rotary Collator could be produced for sale. Thomas Collators Industries, Inc. observed and developed an interest in the machine and in 1958, after negotiation, executed the Rotary Collator Agreement with Mestre. Within six months of this agreement, Thomas, with Mestre's assistance, had begun production and entered the collator market. Thomas soon became a successful participant—if not a leader—in the business of manufacturing and marketing automatic collators. By 1965, Mestre and Thomas had negotiated three (3) additional agreements covering the Vertical, A-10 and Auto-Sorter collator machines.

In 1965, Pitney-Bowes began the process of acquisition of Thomas. As a condition precedent to acquisition, Pitney-Bowes insisted that the four collator agreements be modified. The 1965 Amendment Agreement was the result.

THE AGREEMENTS

For reasons which the discussion below will make apparent, each agreement requires and merits individualized examina-

tion. What follows is a synopsis of the pertinent provisions of the agreements which are in issue here.

1. *The Rotary Collator Agreement* (1958).

The Rotary Collator Agreement was a product of the combined efforts of representatives of both Mestre and Thomas.[2] Under the agreement Mestre granted to Thomas the right to manufacture and market the "inventions embodied in the Rotary Collator," which rights are exclusive against Mestre and his assigns.[3] The license on the then-existing Rotary Collator was granted to Thomas without reference to and with no express condition upon the issuance of patents on the machine. At the time of the execution of the agreements, there were no patents issued on the Rotary Collator; although two patent applications were pending which subsequently were granted.[4] Under the agreement, in exchange for the license, Thomas contracted to pay Mestre royalties on each machine manufac-

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2 While Pitney-Bowes urges the importance of their contention that the first draft of the agreement was prepared by Mestre's attorney, the record reflects that the agreement in final form was the product of negotiations by counsel for Mestre and Thomas.

3 The agreement, paragraph 1, provides:

> 1. *The License.* Mestre grants to Thomas the right to manufacture, have made or manufactured, use, import, export, sell and deal in the inventions embodied in the Rotary Collator within the United States of America, its territories and possessions and foreign countries all of which rights hereby granted during the term hereof shall be exclusive against Mestre and his assigns. If Mestre shall invent any improvement (but he shall not be obligated to do so), Thomas shall be entitled to be licensed thereunder for the life of the patent on such improvement, in which event the term of this agreement will be deemed extended to the life of that patent, and Thomas shall continue to pay royalties thereon at the rate specified in paragraph 3(a), unless the parties shall otherwise agree, after completion of the payment of the maximum amount therein specified.

4 It is Mestre's position that, even though patents were issued on the Rotary Collator, the license granted more than patent protection to Thomas; e.g., included in the inventions embodied in the Rotary Collator were Mestre's trade secrets and know-how.

tured and sold, up to a maximum royalty payment of $975,000. The agreement did not, however, provide for a specific date of expiration.[5]

Under the Term provision (¶ 2(a)-(d)), the agreement established grounds upon which the agreement could be terminated: at the option of Thomas, in the event (1) a competent judgment determined Thomas had infringed a patent owned adversely to Mestre, or (2) Mestre breached the agreement or any warranty therein; or, at the option of Mestre, in the event (1) Thomas breached the agreement, or (2) Thomas was decreed insolvent or bankrupt.

Pursuant to the agreement, Mestre was required to supply Thomas with two prototypes, a set of shop experimental drawings and a parts list. Mestre was not required to provide tools, dies, jigs, fixtures or personal services to Thomas, but the agreement indicated that Mestre could do so at his discretion.

2. *The Vertical Collator Agreement* (1959).

The Vertical Collator Agreement was the product of negotiation between Mestre and Thomas and was executed before any patents were issued on the Rotary Collator. The agreement granted to Thomas the sole and exclusive license to manufacture and market the Vertical Collator specifically described in patent applications.[6] There were patent applications (on the

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5 In oral argument Mestre indicated that under this arrangement, had Thomas paid the maximum royalty, all rights in the Rotary Collator would have been Thomas' with no remaining interests in Mestre. Mestre contends that the Amendment Agreement, specifically ¶ 11(b), altered the preceding scheme.

6 The agreement, Article I, provides:

The License

Mestre hereby grants to Thomas, its successors and assigns, the sole and exclusive right and license to make, manufacture, have made or manufactured by others, use, import, export, sell and deal in the Vertical Collator specifically described in said patent applications and any and all modifications thereof and improvements thereon that

machine) pending at the time of execution of the agreement, which applications were subsequently granted. The agreement provides for its expiration upon the death of Mestre, after seventeen years or upon the expiration of the last to expire patent, whichever is greater. The agreement lists the same four grounds for termination mentioned above. Included in the Term Article is a provision requiring Thomas and its assignees and sub-licensees to keep secret all confidential information relating to the Vertical Collator.[7]

Pursuant to this agreement, Mestre was required to supply to Thomas two prototypes and a set of shop experimental drawings and a parts list. Mestre had the option, at his discretion, to supply production equipment and personal services to Thomas to assist in production initiation. Apparently, Thomas had begun production of the Vertical Collator prior to the execution of this agreement. Thomas acknowledged the disclosure of Mestre's "know-how" which had been transferred earlier.[8]

Mestre may hereafter make or develop and under any letters patent which may issue thereon and, subject to the obtaining of Mestre's prior written consent, to sub-license others to do so, within the United States of America, its territories and possessions, and in foreign countries throughout the world.

7 The agreement at Article II, ¶ (e) provides:

(e) No manufacturer shall be employed by Thomas, its assignees or sublicensees to manufacture the Vertical Collator, or such substantial components thereof as are likely to develop knowledge of the essential elements of the manufacture thereof, unless such manufacturer shall first agree in writing to keep secret all confidential information relating to the Vertical Collator, parts thereof or attachments thereto, and shall agree in writing that all special tools, dies, jigs and equipment used in the manufacture of the Vertical Collator, parts thereof and attachments thereto shall be and remain the exclusive property of Thomas, its assigns or sublicensees as the case may be.

8 The second "whereas clause" of the agreement reads as follows:

WHEREAS, Thomas has begun the manufacture and development for sale of the Vertical Collator solely by virtue of Mestre's disclosure to it of the principles thereof and his transfer to it of necessary manufacturing and technical "know how" necessary for the commercial production thereof;

The agreement required Thomas to pay royalties to Mestre in exchange for the exclusive license.

3. *The A-10 Collator Agreement* (1962).

The A-10 Collator Agreement was executed after negotiation between representatives of Mestre and Thomas. Under the agreement Mestre granted to Thomas the sole and exclusive right and license to make and sell the A-10 Collator, parts thereof and attachments thereto, "and under any letters patent which may hereafter issue on the inventions embodied therein."[9] There were letters patent issued on the A-10 Collator subsequent to the execution of the agreement. Pursuant to the agreement Thomas contracted to pay royalties in exchange for the license.

The agreement, by its terms, continues in full force and effect for seventeen years or for the term of any later issued patent, whichever is greater.[10] The agreement contains four grounds for termination similar to those mentioned in the Rotary Collator Agreement, as well as a secrecy requirement similar to that in the Vertical Collator Agreement.

Mestre was obligated to provide to Thomas one prototype of the A-10, a set of shop experimental drawings and a parts list

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9 The agreement, Article I(a), provides:

The License

(a) Mestre hereby grants to Thomas the sole and exclusive right and license to make, manufacture, have made or manufactured, use, import, export, sell and deal in, within the United States of America, its territories and possessions, and in foreign countries throughout the world, the A-10 Collating Machine, parts thereof and attachments thereto, and under any letters patent which may hereafter issue on the inventions embodied therein.

10 The agreement, Article II(a), provides:

The Term

(a) The license hereby granted shall continue in full force and effect for seventeen (17) years, or for the term of any patent or patents which now or hereafter may issue on the A-10 Collating Machine, parts thereof and attachments thereto, owned or developed by Mestre for which Thomas has exclusive rights under this Agreement, whichever is greater.

for the prototype unit. Mestre had the option, at his discretion, to provide production equipment and personal services to assist Thomas.

4. *The Auto-Sorter Agreement* (1965).

At about the time Mestre offered Thomas a license on the Auto-Sorter, Pitney-Bowes was negotiating the acquisition of Thomas. The Auto-Sorter Agreement was prepared during these negotiations. Under the agreement Mestre granted Thomas a license to make and sell the Auto-Sorter in terms similar to those used in the A-10 Agreement,[11] including the reference to a license ". . . under any letters patent which may hereafter issue. . . ." Patents were granted subsequent to the effective date of the agreement. The agreement provides for the payment of royalties by Thomas in exchange for the license.

The Term Article of the agreement establishes the life of the license as seventeen years or the term of the last to issue patent on the Auto-Sorter, whichever is greater.[12] The four grounds for termination mentioned in the preceding agreements along with the secrecy requirement are included in this agreement.

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11 The agreement, Article I(a), provides:

The License

(a) Mestre hereby grants to Thomas the sole and exclusive right and license to make, manufacture, have made or manufactured, use, import, export, sell and deal in, within the United States of America, its territories and possessions, and in foreign countries throughout the world, the Auto-Sorter Machine, parts thereof and attachments thereto, and under any letters patents, if any, which may hereafter issue on the inventions embodied therein.

12 The agreement, Article II(a), provides:

The Term

(a) The license hereby granted shall continue in full force and effect for seventeen (17) years, or for the term of any patent or patents which now or hereafter may issue on the Auto-Sorter Machine, parts thereof and attachments thereto, owned or developed by Mestre for which Thomas has exclusive rights under this Agreement, whichever is greater.

Mestre was obligated to supply to Thomas two prototype Auto-Sorter Machines, a set of shop drawings and parts list. Mestre, at his discretion, could supply production equipment and personal services.

5. *The Amendment Agreement* (1965).

This agreement was negotiated by Mestre, Thomas and Pitney-Bowes, and was executed along with the Auto-Sorter Agreement. Pitney-Bowes insisted, as a condition of the acquisition of Thomas, that the four machine agreements be modified. Pitney-Bowes wanted the scope of the licenses to be limited to the claims of Mestre's patents, and prepared a draft reflective of this desire.[13] Mestre rejected this draft, insisting

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13 The Whereas Clauses of the first draft Amendment include the following:

> WHEREAS, Mestre is the sole owner of all right, title and interest in and to the Letters Patent issued by the United States Patent Office, as listed on the attached Schedule A, the Letters Patent issued by the Patent Offices of Canada, Great Britain, France, Switzerland and Belgium, as listed on the attached Schedule (sometimes collectively referred to as the Patents), Applications for Letters Patent filed in the United States Patent Office, as listed on the attached Schedule C, and Applications for Letters Patent issued by the Patent Offices of various other countries, as listed on the attached Schedule D (sometimes collectively referred to as the Patent Applications), and
>
> WHEREAS, Thomas desires to acquire the exclusive right to manufacture, use, sell, lease and deal in the products covered by the claims of the Patents and Patent Applications relating to collating machines, improvements thereon and any Patents which may hereafter issue thereon in all countries of the world; and
>
> WHEREAS, one License Agreement, dated October 3, 1958, has heretofore been entered into between Mestre and Thomas Collator Industries, Inc. (Industries), a wholly owned subsidiary of Thomas, and two License Agreements, dated October 16, 1959 and September 1, 1962, respectively, have heretofore been entered into between Mestre and Thomas under certain of the Patent Applications, the three agreements covering inventions embodied in Rotary, Vertical and so-called A-10 collating machines, respectively, invented by Mestre, all of said three License Agreements being cancelled and superseded by this Agreement; and • • • •

that royalties be paid for know-how and trade secrets. Pitney-Bowes acquiesced in this demand. Mestre prepared a draft which was the subject of negotiation among the parties. The Amendment Agreement was the product of this negotiation.

The first Whereas clause of the Amendment refers to the Rotary Collator Agreement as a license to make and sell "the rotary collator which is more fully described in applications for letters patents. . . ." Further, Paragraph 1 of the Amendment confirms "that the term 'Rotary Collator' as used in the Rotary Collator Agreement means and at all times has meant all of Mestre's inventions (if any), designs and developments, embodied in the rotary collating machine as described in applications for letters patent . . . and embodied in the prototype of the machine which was delivered to Industries. . . ." The second Whereas clause refers to the other three agreements and places similar reliance on the patents to describe the machines. Paragraph(s) 4. and 5. of the Amendment amend the license provisions of the agreement by granting the sole and exclusive right and license to make and sell the machine, "parts thereof and attachments thereto, *and under letters patent*, if any, which may *hereafter* issue on the inventions embodied therein."[14] (emphasis added)

Article I of the first draft Amendment provided in part:

The License

(a) Mestre hereby grants to Thomas, its successors and assigns the sole and exclusive right to manufacture, have manufactured by others, use, sell, lease and deal in all products utilizing any of the inventions embodied in the claims of the Patents and Patent Applications and utilizing any of the claims of the Patents and Patent Applications covering any modifications thereof and improvements thereon relating to collating machines (sometimes collectively referred to as the Licensed Products) throughout the world, at royalty rates provided by Article III hereof.

14 4. Paragraph 1 of the Rotary Collator Agreement is hereby amended to read as follows:

"1. Mestre hereby grants to Industries, its successors and assigns, the sole and exclusive right and license to make, manufacture, have made or manufactured, use, import, export, sell and deal in the United States of America, its territories and possessions, and in foreign

The Term section of the Rotary Collator Agreement was amended by ¶ 11(a) of the Amendment. It is noteworthy that ¶ 14 of the Amendment, which alters the royalty provisions of the Rotary Collator Agreement, removes the $975,000 "ceiling" on royalty payments. The changes in ¶¶ 11(a) and 14 of the Amendment thus establish a term which is dependent on the passage of time rather than on the payment of an agreed-upon sum of money.[15] Another Amendment (¶ 11(b)) to the Term section of the Rotary Collator Agreement adds a new ¶ (e)[16] to that section, which provides that if the agreement is

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countries throughout the world, the Rotary Collator, parts thereof and attachments thereto, and under letters patent, if any, which may hereafter issue on the inventions embodied therein. Mestre further agrees that he will grant to Industries, its successors and assigns, the sole and exclusive right and license to make, manufacture, have made or manufactured, use, import, export, sell and deal in, within the United States of America, its territories and possessions and in foreign countries throughout the world any improvements in or modifications of the Rotary Collator, parts thereof and attachments thereto which Mestre may make (but he shall not be obligated to make any such improvements or modifications) after the date of this agreement and under any letters patent which may hereafter issue on the inventions embodied therein and which are uniquely suited or adapted for the Rotary Collator, parts thereof or attachments thereto, it being distinctly understood, however, that Mestre will not grant any rights to any new machine, parts thereof or attachments thereto which do not involve (i) patents applications for which are pending as stated herein, (ii) patents on features which are uniquely suited or adapted for the Rotary Collator, parts thereof and attachments thereto or (iii) any improvements or changes which are uniquely suited or adapted for the Rotary Collator, parts thereof and attachments thereto."

15 "11(a). The first three lines of paragraph 2 of the Rotary Collator Agreement are hereby amended to read as follows:

> 'The license hereby granted shall continue in full force and effect for seventeen (17) years, or for the term of any patent or patents which now or hereafter may issue on the Rotary Collator, parts thereof and attachments thereto, owned or developed by Mestre for which Industries has exclusive rights under this Agreement, whichever is greater, unless sooner terminated by notice as follows:' "

16 "11(b). Said paragraph 2 shall be further amended by the addition of a paragraph (e) to read as follows:

> '(e) in the event of termination of this agreement other than as set forth in (a) and (b) above, Industries agrees that it will not, directly or

"terminated" by Thomas for any reason other than those contained in ¶¶ 2(a)&(b) of the Rotary Collator Agreement, Thomas would lose the right to make and sell rotary collators. (Mestre contends that the word "terminate" encompasses the term "expire" and that when the agreement expires ¶ (e) creates a reversion in Mestre of the rights to the rotary collator. Pitney-Bowes argues that "terminate" and "expire" are distinct, exclusive terms.) The Amendment at ¶ 18 uses both expiration and termination in the same paragraph and arguably draws a distinction between the two terms.[17]

APPLICABLE LAW

The principle issues to be decided, with respect to all four amended agreements, are what are the expiration dates of the agreements and what are the post-expiration consequences. The latter issue can be restated as whether, after expiration of the term of an agreement, Pitney-Bowes is free to make and market the machine covered by the agreement without further royalty obligation to Mestre.

With reference to the question of royalty obligations, if the agreements are solely patent licenses, *Brulotte v. Thys Co.*, 379 U.S. 29, 85 S.Ct. 176, 13 L.Ed.2d 99 (1964) would appear to

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indirectly, manufacture, use, sell or lease the Rotary Collator and the parts thereof or attachments thereto or otherwise exercise any rights granted to it by Mestre under the terms of this agreement, except that in any case Industries shall expressly have the right to continue to manufacture and sell parts and supplies to users of the Rotary Collator and to retain and maintain Industries' tools, jigs and dies for such purpose, provided, however, that in such event Industries shall pay to Mestre the royalties herein provided for such manufacture and sale of such parts and supplies.' "

17 The last sentence of paragraph 18 of the Amendment provides:

"Industries agrees that the expiration of this agreement, or its termination pursuant to the terms hereof, shall not in any way affect the operation of the two preceding paragraphs of this paragraph 6(a) or discharge Industries from the obligations, admissions or estoppels contained herein."

control. The Supreme Court held in *Brulotte* that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*." *Id.* at 32, 85 S.Ct. at 179. *Brulotte* thus stands for the proposition that patents are in the federal domain, and whatever the legal device employed, "a projection of the patent monopoly after the patent expires is not enforceable." *Id.* at 32, 85 S.Ct. at 179. Therefore, in the case of patent licenses, the law appears settled that royalty obligations created by license may not be used to extend the term of patent monopoly.

If the agreements are solely trade secret or know-how agreements, then the state law of contract governs.[17a] In *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 99 S.Ct. 1096, 59 L.Ed.2d 296 (1979), Chief Justice Burger addressed the question of "whether federal patent law preempts state contract law so as to preclude enforcement of a contract to pay royalties to a patent applicant, on sales of articles embodying the putative invention, for as long as the contracting party sells them, if a patent is not granted." *Id.* at 258, 99 S.Ct. at 1097. The Court held that payment of royalties for trade secrets is not inconsistent with federal patent law, particularly where trade secrets allowed a manufacturer to be first in the market. In *Aronson* the language of the contract placed no condition on the issuance of a patent, and both parties were aware that a patent might not be granted. From these facts the Court concluded that the manufacturer placed significant value on exploiting the basic novelty of the device, even if no patent issued. The Court went on to hold that, even though the device that was the subject of the contract is no longer secret, when the contract was negotiated at arm's length, the novelty was enough to induce the manufacturer to agree to pay for the opportunity to be the first in the market, and patent law will not be a barrier to such an agreement.

17a Under the terms of the Amendment Agreement, "the Laws of the State of New York" govern any questions concerning the interpretation and enforcement of the agreement. *See* ¶ 29, Amendment Agreement.

If the agreements are some form of hybrid, granting exclusive rights both to trade secrets and know-how and to claims of patents, the law is not so clear, and the validity of such an agreement must be questioned. In *Kewanee Oil Company v. Bicron Corporation*, 416 U.S. 470, 94 S.Ct. 1879, 40 L.Ed.2d 315 (1974), Chief Justice Burger conducted "an examination of the interaction of these systems of protection of intellectual property—one established by the Congress and the other by a state—to determine whether and under what circumstances the latter might constitute 'too great an encroachment on the federal patent system to be tolerated.' " *Id.* at 482, 94 S.Ct. at 1886. Chief Justice Burger said:

> If a State, through a system of protection, were to cause a substantial risk that holders of patentable inventions would not seek patents, but rather would rely on the state protection, we would be compelled to hold that such a system could not constitutionally continue to exist. In the case of trade secret law no reasonable risk of deterrence from patent application by those who can reasonably expect to be granted patents exists.

Id. at 489, 94 S.Ct. at 1890.

The Court's analysis recognized the differences in the scope of protection as well as the differences in the nature of the intellectual properties protected under trade secret law and patent law, and concluded:

> . . . that the extension of trade secret protection to clearly patentable inventions does not conflict with the patent policy of disclosure. Perhaps because trade secret law does not produce any positive effects in the area of clearly patentable inventions, as opposed to the beneficial effects resulting from trade secret protection in the areas of the doubtfully patentable and the clearly unpatentable inventions, it has been suggested that partial pre-emption may be appropriate, and that courts should refuse to apply trade secret protection to inventions which the holder should have patented, and which would have been,

> thereby, disclosed. However, since there is no real possibility that trade secret law will conflict with the federal policy favoring disclosure of clearly patentable inventions partial pre-emption is inappropriate.

Id. at 492, 94 S.Ct. at 1891.

The Court's conclusion evolved after a review of the purposes of the federal patent system: (a) patent law seeks to foster and reward invention; (b) patent law promotes disclosure of inventions, to stimulate further innovation and to permit the public to practice the invention once the patent expires; and (c) patent law with its stringent requirements for patent protection seeks to assure that ideas in the public domain remain there for the free use of the public.

In light of the rationales of *Aronson* and *Kewanee* and the purposes of the federal patent system, it appears that trade secret protection and patent protection (to the extent that their provisions are not contradictory) may coexist in the same agreement. In the event that trade secret protection and patent protection overlap, patent law would preempt trade secret law. However, where the natures of the intellectual properties are different and the protection conferred under trade secret law does not impinge upon the protection under patent law, trade secret law does not constitute "too great an encroachment on the federal patent system to be tolerated." *Kewanee Oil Company, supra* at 482, 94 S.Ct. at 1886.

Insofar as the four agreements in issue here are concerned, the Court perceives two areas in which trade secret and patent protection may conflict: (a) the time of expiration of the terms of the agreements, and (b) the rights of the parties after the agreements expire. Mestre contends that each of the agreements represent a grant of trade secrets and know-how and a sale of patents,[18] that the trade secrets and know-how are

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18 Mestre's contention that the basis of each bargain was the grant of trade secrets and know-how has been made consistently throughout this litigation. His argument that the agreements also embodied the sale of patents first appeared in Defendant's Memorandum in Reply, Docket #131.

completely separate and distinct from patents, and that the trade secrets and know-how continue to be protected by state law and have a legal viability separate and distinct from federal patent law. The simple answer to Mestre's contention is that to the extent that the trade secret/know-how protection covers separate and distinct intellectual property which coverage does not encroach on the federal patent system, this protection is controlled by state law and not federal patent law. In other words, there may be instances in which, given a hybrid trade secret and patent agreement providing clearly separate forms of protection, the trade secret protection might have a separate legal viability and might survive the expiration of a patent.[19]

Pitney-Bowes has conceded for the purposes of the Cross-Motions for Summary Judgment that "machine prototypes and shop experimental drawings provided by Mestre to Thomas Collators pursuant to each machine agreement embodied trade secrets at the time of initial disclosure."[20] Pitney-Bowes contends, however, that, as a matter of law, the machine agreements became patent licenses, subject to federal patent policy, when patents issued on the licensed machines. Underpinning Pitney-Bowes' contention is the argument that (a) Mestre applied for patents for each machine, prior to the execution of the agreement; (b) each agreement mentioned patents and Thomas' desire to have exclusive rights to the machines; (c) the Amendment Agreement defined all four machines in terms of what was described in the patent applications and in terms of patents issued or to be issued; (d) as to

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19 The Court is not compelled to set out the outer limits of such an inquiry here. In passing, however, the Court notes that appropriate subjects of inquiry, which are by no means exhaustive, would likely focus on the differences, if any, in the types of intellectual property covered, or any provision for allocation of royalties, and/or whether the agreement itself clearly differentiates between the two types of protection. This inquiry would, of necessity, be fact-specific, but poses no more difficult an undertaking than is normally encountered in other complex commercial litigation.

20 Pitney-Bowes' Memorandum in Opposition to Mestre's Motion for Summary Judgment, Docket #117, at 7.

each agreement, patents were issued on the machines; and (e) none of the agreements apportions royalties among patented and unpatented information.

None of the parties has cited, nor has the Court discovered, a case which holds that, as a matter of law, the issuance of a patent on a machine that is the subject of a trade secret agreement, and that is mentioned in descriptive terms by reference to its patent application, but the issuance of which patent is not a condition of the agreement, transforms the agreement into a patent license. Pitney-Bowes' reliance on *Brulotte v. Thys Co., supra,* to support its contention is misplaced, especially in view of Pitney-Bowes' concession as to the grant of trade secrets pursuant to the agreements.

Therefore, in view of the foregoing, the Court concludes that the agreements did not become solely patent licenses when patents issued on the subject machines. Further, in light of the conceded grant of trade secrets pursuant to agreement and the two-fold conclusion that patent law does not *per se* pre-empt trade secret law and that patent protection and trade secret protection can coexist in the same agreement, it follows that in order for the issuance of a patent to have any effect on these licenses, the grant of rights to protection by the patent in each case must have been a subject of the agreement, and a basis of the bargain.

CONSTRUCTION OF THE ORIGINAL FOUR AGREEMENTS AND THE AMENDMENT

The Rotary Collator Agreement granted rights to the *inventions* embodied in the rotary collator. The license portion of the agreement made no reference to patents, nor to rights or interests in letters patent. At the time of the execution of the agreement no patents had issued on the rotary collator. The agreement did not provide for an expiration date, and therefore conceivably could have continued indefinitely pending payment of the maximum fixed royalty. The agreement provided for the delivery of machine prototypes, drawings and a parts list. The conclusion is inescapable that the original

Rotary Collator Agreement was solely a trade secret, know-how license.

The Vertical Collator Agreement describes the machine by reference to the patent applications and grants exclusive rights to Thomas in the machine *and* under any letters patent which may later issue.[21] The agreement provided for the delivery of prototypes, drawings and a parts list. Additionally, Thomas expressly acknowledged the receipt of "know-how" from Mestre. Therefore, it is concluded that the Vertical Collator Agreement is a hybrid trade secret, patent license. The A-10 Collator Agreement and Auto-Sorter Agreement are similar to the Vertical Collator Agreement in their reliance on patents and trade secrets. Therefore, both the A-10 Collator Agreement and the Auto-Sorter Agreement are hybrid trade secret patent licenses.

The first draft of the Amendment Agreement[22] represents a classic example of a patent license agreement. The later draft and the final Amendment manifest the intention of Mestre, and the acquiescence by Pitney-Bowes, that the amended agreements be something more than patent licenses. The resulting language of the Amendment Agreement leads to the conclusion that, whatever else the agreement did, it did not change the nature or scope of the trade secret/patent protection established under the original four agreements. While there is language which would indicate some reliance on patents in the amendment to the Rotary Collator Agreement, such reliance is negated by the confirmation as to the continued meaning of the "Rotary Collator" stressed in the Amendment Agreement. ***Therefore, the Rotary Collator Agreement, as amended, remains solely a trade secret, know-how agreement.***

The amendment did not disturb the hybrid nature of the Vertical Collator, A-10 Collator, and Auto-Sorter Agreements. The intention of the parties that the agreements be something more than patent licenses is evident in the language of the

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21 *See* footnote 6, *supra*.

22 *See* footnote 13, *supra*.

Amendment and in the fact that the provisions referring to prototypes, drawings and parts lists were not deleted from the earlier licenses. *Therefore, the amended Vertical Collator, A-10 Collator and Auto-Sorter Agreements are hybrid trade secret, patent licenses.*

EXPIRATION OF AGREEMENTS

Since the Rotary Collator Agreement is a trade secret license, the determination of the term of the agreement is a question of state contract law, and the duration of the agreement (and the concomitant royalty obligation) may extend for any period freely undertaken by the parties. *See Aronson v. Quick Point Pencil Co., supra*; *Kewanee Oil Co. v. Bicron Corporation, supra.* The Court, however, is unable to discern the expiration date from the language of the amended agreement; nor can the intentions of the parties be inferred from the undisputed facts adduced.[23] Therefore, the determination of the term of the Rotary Collator Agreement is not appropriate for summary judgment.

The Vertical Collator Agreement provides for a term which extends past the expiration of the last-to-expire patent on the machine.[24] As noted previously, *see* n.19, *supra*, the Court is

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23 *See* footnote 15, *supra*. Mestre contends that the Amendment sets the expiration date at December 30, 1982 (which is seventeen (17) years from the date of execution of the Amendment). Pitney-Bowes argues that the purpose of the Amendment ¶ 11(a) was to make the term provisions consistent with the other agreements and that, therefore, the expiration date should be seventeen (17) years from the date of execution of the original Rotary Collator Agreement or the date of the last-to-expire patent, whichever is greater (i.e., June 14, 1977).

24 Article II(a) of the Vertical Collator Agreement set forth three alternative dates of expiration: the life of Mestre, seventeen (17) years or for the term of any patents issued on the Vertical Collator, whichever is greater. Mestre lived for more than the seventeen (17) year period and past the expiration of the last-to-expire patent on the Vertical Collator. Therefore, under the terms of the Agreement, Mestre's date of death controls.

persuaded there may be instances in which an obligation to make royalty payments under a hybrid license, granting rights to trade secrets and patents, would survive the expiration of the underlying patents. The Vertical Collator Agreement, as discussed above, is a hybrid license. Despite this threshold determination, the Court nevertheless concludes that Pitney-Bowes' obligation to make royalty payments pursuant to the Vertical Collator Agreement, after expiration of the patents, is invalid. This is because there is no explicit language in the agreement differentiating between the two forms of protection underlying the royalty obligation and because there is no division or allocation of royalties vis-a-vis the two forms of protection underlying the royalty obligation. *See Veltman v. Norton Simon, Inc.*, 425 F.Supp. 774 (S.D.N.Y. 1977). Absent such provisions, the agreement, on its face, would appear to run counter to the decision in *Brulotte v. Thys Co., supra,* and to violate its specific proscription of the "use of a royalty agreement that projects beyond the expiration date of the patent. . . ." *Id.* 379 U.S. at 32, 85 S.Ct. at 179. Simply stated, the Court thus concludes that the extension of the obligation to make royalty payments, pursuant to the Vertical Collator Agreement, beyond the expiration of the underlying patents represents too great an encroachment on the federal patent system. Therefore, the term provision which extends the life of the agreement beyond the expiration date of the last-to-expire patent, and the attendant royalty obligation, are invalid, and the Vertical Collator Agreement is deemed to expire on October 17, 1978—the expiration date of the last-to-expire patent.

The A-10 Collator and Auto-Sorter Agreements provide for expiration dates which are consistent with patent law coverage. Their respective expiration dates are self-apparent from the face of the agreements as amended.

POST-EXPIRATION CONSEQUENCES

Pitney-Bowes seeks a declaration that it may continue to manufacture and sell the subject machines *after* expiration of

the agreements, without entering into further agreements with Mestre and without paying further royalties to Mestre. Mestre contends, however, that such a declaration would be at odds with the operative effect of ¶ 11(b) of the Amendment Agreement. As noted above, under the terms of the machine agreements, Pitney-Bowes is obligated to make royalty payments on the sale of the licensed machines during the life of the agreements. Upon expiration of that obligation, Mestre asserts, ¶ 11(b) bars Pitney-Bowes from manufacturing or selling the machines unless new agreements are executed.[25] For the reasons noted below, the Court disagrees with Mestre's construction of ¶ 11(b).

Preliminarily, the Court notes that irrespective of whether the agreements in question are solely trade secret licenses or hybrid trade secret/patent licenses, the determination of any post-expiration rights of the parties to the trade secrets is a matter of contract law left for agreement by the parties.[26] We thus initially focus upon the language in ¶ 11(b) of the Amendment Agreement that sets forth the consequences which follow "[i]n the event of termination of this agreement."[27] As indicated, if the agreement is terminated for other than the reasons set forth in ¶¶ 2(a) and (b) of the Rotary Collator Agreement, Pitney-Bowes loses the right to make and sell the licensed machines. Mestre contends that, as that term is used in ¶ 11(b), termination is not limited to "active" termination but, rather, it encompasses "passive" termination such as expiration. In

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25 ¶ 11(b), by its express terms, only applies to the Rotary Collator. However, ¶ 12 of the Amendment Agreement makes ¶ 11(b) equally applicable to the three other machines.

26 None of the parties has asserted any post-expiration rights to protection under the patent system. Such an assertion would be fruitless, since it is well settled that upon expiration of a patent, the intellectual property covered thereby enters the public domain. *See Lear, Incorporated v. Adkins*, 395 U.S. 653, 89 S.Ct. 1902, 23 L.Ed.2d 610 (1969); *Brulotte v. Thys Co.*, 379 U.S. 29, 85 S.Ct. 176, 13 L.Ed.2d 99 (1964).

27 *See* footnote 16, *supra*.

short, Mestre would construe expiration to be a form of termination, with that latter term's attendant consequences.

Mestre's argument that the expiration is a form of termination loses its force, however, when viewed against the backdrop provided by ¶ 18 of the Amendment.[28] By agreeing in that paragraph "that the expiration of this agreement, or its termination pursuant to terms hereof, shall not in any way affect the operation [of preceding provisions]," it is apparent that the parties viewed the terms to possess distinct, if not mutually exclusive, meanings. Thus, whatever else the term "expiration" means, the Court concludes that, based upon a facial reading of the Amendment, that word was not meant to be synonymous with "termination" as used in ¶ 11(b). In view of this conclusion, "expiration" of the agreements, without more, would be insufficient to raise the bar contained in ¶ 11(b) against Pitney-Bowes' making or selling the licensed machines.

Given the Court's conclusion that ¶ 11(b), on its face, does not bar Pitney-Bowes from making or selling the licensed machines upon expiration of the machine agreements, the sole remaining issue is whether Mestre has some reversionary interest in the trade secrets which would bar Pitney-Bowes from making or selling the machines, upon expiration of the agreements, without payment of royalties. Mestre has directed the Court's attention to no other provision, and the Court's careful review of the agreements reveals no other provision which would create a reversionary interest in the trade secrets. The inquiry does not, however, stop there. We must, as a final matter, determine whether New York's body of trade secret law would imply a reversionary interest in the trade secrets to Mestre.[29]

Where, as here, a licensee such as Pitney-Bowes acquires trade secrets through a confidential disclosure, there is ample New York caselaw supporting the proposition that the licensee may not use or misappropriate that information after expira-

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28 *See* footnote 17, *supra*.

29 *See* footnote 17a, *supra*.

tion of the license without making some form of compensation to the licensor. *See, e.g., Ewen v. Gerofsky*, 86 Misc.2d 913, 918, 382 N.Y.S.2d 651, 655 (1976), *aff'd* 72 A.D.2d 976, 422 N.Y.S.2d 273. Compensation may be compelled under one of two theories. A contractual obligation will be "implied in fact" when the evidence shows that the parties clearly intended payment to the extent of use of the licensor's trade secrets, even though they did not set forth that intention in express language. Although this theory may eventually be found to be applicable, there is a material factual dispute here concerning the parties' mutual intentions with respect to Pitney-Bowes obligation, if any, to make royalty payments after expiration of the machine agreements. The Court, therefore, concludes that summary judgment implying such an obligation is inappropriate.

Alternatively, an obligation may be "implied in law" when there is no express obligation, but the cirumstances make it inequitable for the licensee to profit from the continuing use of the licensor's trade secrets. Here again the Court is compelled to conclude that, based upon the record now before us, there are material factual questions concerning whether Pitney-Bowes will be unjustly enriched and, if so, to what extent, by its continued use of Mestre's trade secrets. Moreover, the Court perceives certain equitable considerations such as Mestre's purported tax treatment of income received under the machine agreements, which would militate against implying an obligation upon Pitney-Bowes to compensate Mestre under a theory of unjust enrichment. In its present state, the record will simply not permit the Court to weigh these equities at this juncture. Summary judgment on this latter theory is, therefore, similarly inappropriate.

CONCLUSION

In conclusion, the Court finds that, with the exception of the parties' intent concerning the term of the Rotary Collator Agreement and certain post-expiration consequences under the four collator machine agreements as amended, there is no

material factual dispute over the matters discussed above and summary judgment is, therefore, appropriate. Accordingly, pursuant to 28 U.S.C. §§ 2201, 2202, the rights and obligations of the parties are declared to be as follows:

1. With respect to the Vertical Collator Agreement, the A-10 Collator Agreement and the Auto-Sorter Agreement, which are hybrid trade secret/patent agreements, each expires on the expiration date of the last-to-expire patent licensed under that agreement. Moreover, nothing contained in those agreements or in the Amendment Agreement, specifically ¶ 11(b), bars Pitney-Bowes from making or selling the machine that is the subject of the agreement after expiration of said agreement. However, whether New York state law would imply a reversionary interest in the trade secrets underlying the agreements to Mestre and would impose a concomitant obligation upon Pitney-Bowes to compensate Mestre for the use of those trade secrets after expiration of the agreements, is an issue reserved for trial.[30]

2. With respect to the Rotary Collator Agreement as amended, which is solely a trade secret/know-how agreement, it expires upon the mutually agreed upon date as defined by New York state law. What the date is will remain for trial. Nothing contained in the Rotary Collator Agreement or in the Amendment Agreement, specifically ¶ 11(b), bars Pitney-Bowes from making or selling the Rotary Collator after expiration of that agreement, whatever that date is determined to be. However, whether New York state law would imply a rever-

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30 While intimating no view on the merits of the argument, the Court notes that, inasmuch as the Vertical, A-10 and Auto-Sorter Collator Agreements are hybrid trade secret/patent licenses, it can be argued that policies underlying federal patent law would be at odds with the operation here of any state trade secret law which required Pitney-Bowes to make royalty payments on machines sold after expiration of the agreements. Since the parties have not briefed this issue, the Court is simply unprepared, at this juncture, to consider it. However, if either or both parties are inclined to submit renewed motions for summary judgment pertaining to this issue, the Court would entertain them.

sionary interest in the trade secrets underlying that agreement to Mestre and would impose a concomitant obligation upon Pitney-Bowes to compensate Mestre for the use of those trade secrets after expiration of the Rotary Collator Agreement, is an issue reserved for trial.[31]

In view of the foregoing discussion, it is

ORDERED AND ADJUDGED that Mestre's Motion for Summary Judgment is DENIED in its entirety. Pitney-Bowes' Motion for Summary Judgment is DENIED in part and GRANTED in part as set forth above.

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31 Of course, if either or both parties conclude that the record, as supplemented by affidavits, could be sufficiently developed to dispose of material factual controversies pertaining to the Amended Rotary Collator Agreement, the Court would not preclude a renewed motion for summary judgment on either of the issues left open for trial by today's order.

APPENDIX C

IN THE
UNITED STATES COURT OF APPEALS
FOR THE ELEVENTH CIRCUIT

No. 81-5749

PITNEY BOWES, INC.,

Plaintiff-Appellant,
Cross-Appellee,

versus

CELINA MESTRE, Personal Representative of the Estate of Luis Mestre, deceased,

Defendant-Appellee,
Cross-Appellant.

Appeal from the United States District Court
for the Southern District of Florida

ON PETITION FOR REHEARING AND
SUGGESTION FOR REHEARING EN BANC

(Opinion April 4, 11 Cir., 1983, ____ F.2d ____).

(May 17, 1983)

Before

RONEY and JOHNSON, *Circuit Judges,*
and DYER, *Senior Circuit Judge.*

PER CURIAM:

(X) The Petition for Rehearing is DENIED and no member of this panel nor Judge in regular active service on the Court having requested that the Court be polled on rehearing en banc (Rule 35, Federal Rules of Appellate Procedure; Eleventh Circuit Rule 26), the Suggestion for Rehearing En Banc is DENIED.

( ) The Petition for Rehearing is DENIED and the Court having been polled at the request of one of the members of the Court and a majority of the Circuit Judges who are in regular active service not having voted in favor of it (Rule 35, Federal Rules of Appellate Procedure; Eleventh Circuit Rule 26), the Suggestion for Rehearing En Banc is also DENIED.

( ) A member of the Court in active service having requested a poll on the reconsideration of this cause en banc, and a majority of the judges in active service not having voted in favor of it, rehearing en banc is DENIED.

ENTERED FOR THE COURT:

/s/ FRANK M. JOHNSON, JR.
United States Circuit Judge

APPENDIX D

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 78-1097-Civ-SMA

PITNEY BOWES, INC.,

Plaintiff,

—v.—

LUIS MESTRE,

Defendant.

ORDER ENJOINING ARBITRATION

THIS CAUSE came before the Court upon the following Motions:

PLAINTIFF'S MOTION TO ENJOIN DEFENDANT FROM ARBITRATION

DEFENDANT'S MOTION TO STAY FURTHER PROCEEDINGS PENDING ARBITRATION

The Court has considered the above motions, the extensive Memoranda submitted by respective counsel, and the arguments presented in Court on October 30, 1978, and is otherwise fully advised in the premises. Thereupon, it is—

ORDERED AND ADJUDGED that Plaintiff's Motion to Enjoin Arbitration is GRANTED and Defendant's Motion to Stay is DENIED. Defendant Mestre is hereby enjoined from commencing arbitration proceedings against Pitney Bowes relating to

the subject matter of this action. In Defendant Mestre's Demand for Arbitration,[1] Mestre asserts *inter alia*

> "that Pitney is obligated to make the payments relating to the sales of Rotary Collators and attachments as required in the Rotary Collator Agreements down to and including December 30, 1982, and thereafter that Pitney may not sell Rotary Collators and attachments unless a new agreement is made with Mestre."

(at p. 6-7, par. 16).

Resolution of the controversy between the parties does involve contract interpretation and arbitration is generally encouraged by the Courts for contractual disputes. In this case, however, Defendant Mestre's claims present issues too intertwined with federal law and policy to be arbitrable.

Mestre seeks an interpretation of the contract that may allow royalty payments after the expiration of the relevant patents, although Mestre contends that such payments would be for trade secrets, and not patent royalties. The Court is in no way passing upon the merits of this claim, but recognizes that resolution of the dispute will involve the applicability or non-applicability of federal cases holding that patent license agreements providing for post-expiration royalty payments are unenforceable. *See Brulotte v. Thys Co.*, 379 U.S. 29 (1964). When, as here, contract interpretation presents public policy issues involving patent and antitrust law, these issues must be resolved by the Court. *See Diematic Mfg. Corp. v. Packaging Industries, Inc.*, 381 F.Supp. 1057 (S.D. N.Y. 1974).

The Court recognizes that the parties, in particular Defendant Mestre, wish to resolve this case expeditiously. Thereupon, it is FURTHER ORDERED AND ADJUDGED that discovery shall be completed by February 28, 1979. The parties should refer to the Order for Pre-Trial Conference and Time Period of Trial issued this day and conform to the Time Schedule set forth therein.

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1 Attached as Exhibit F to the Affidavit of Martin D. Wittstein filed in this case on May 26, 1978.

DONE AND ORDERED at Miami, Florida, this 8 day of November, 1978.

/s/ SIDNEY M. ARONOVITZ
UNITED STATES DISTRICT JUDGE

cc: William J. Dunaj, Esq.
Karl V. Hart, Esq.

APPENDIX E

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 78-1097-Civ-SMA

PITNEY BOWES, INC.,

Plaintiff,

vs.

CELINA B. MESTRE, Personal Representative of the Estate of Luis Mestre, deceased,

Defendant.

ORDER

THIS CAUSE came on to be heard before the Court upon Defendant's Motion for Reconsideration, Remand to Arbitration, and/or for Certification for Expedited Appeal pursuant to Fed.R.Civ.P. 54(b) and Plaintiff's Motion for Reconsideration and Renewed Motion for Summary Judgment. These Motions address issues set forth in the Memorandum Opinion and Order on Cross-Motions for Summary Judgment entered by this Court on February 12, 1981.

Pursuant to requests from both parties, this Court held a hearing upon the pending Motions and entertained oral argument addressed to all matters before the Court on behalf of both parties. Lengthy Memoranda of Law were submitted both in support and in opposition to the pending Motions for the Court's review. The Court having studied the Motions and

Memoranda submitted by both parties, having heard oral argument of Counsel, having reviewed the law applicable to the pending matters and having reviewed pertinent portions of the Record herein and being otherwise fully advised in the premises, it is accordingly

ORDERED AND ADJUDGED as follows:

1. The Motions filed on behalf of both parties for Reconsideration of the Court's prior ruling on the Cross-Motions for Summary Judgment are hereby DENIED. After a full review of the Record herein and the grounds for reconsideration asserted by both parties in their Motions and Memoranda of Law, the Court adheres to its original views on these matters as set forth in the Memorandum Opinion entered herein on February 12, 1981. Genuine issues of material fact remain in those areas where the Court has heretofore refused to grant summary judgment.

2. Plaintiff's Renewed Motion for Summary Judgment is hereby DENIED. After a full review of the Record herein and the Motion and Memorandum submitted by Plaintiff, the Court adheres to its original views regarding genuine issues of material fact precluding an award of summary judgment, notwithstanding the augmented Record as supplemented by the Affidavit submitted by Plaintiff and the recent hearing on the pending Motions.

3. Defendant's Motion to Remand for Arbitration is hereby DENIED. Within the context of the Court's prior ruling on the Cross-Motions for Summary Judgment, the issues of federal patent law and state contract law regarding trade secrets are still so intertwined in matters remaining that remand to arbitration is not appropriate.

4. The Court's ruling upon Defendant's Motion for Certification pursuant to Fed.R.Civ.P. 54(b) is set forth by separate Order of this Court of even date herewith.

DONE AND ORDERED in Chambers at Miami, Florida this 17 day of June 1981.

/s/ SIDNEY M. ARONOVITZ
DISTRICT COURT JUDGE

Copies furnished to:
All Counsel of Record

APPENDIX F

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 78-1097-Civ-SMA

PITNEY BOWES, INC.,

Plaintiff,

vs.

CELINA B. MESTRE, Personal Representative of the Estate of Luis Mestre, deceased,

Defendant.

PARTIAL FINAL JUDGMENT AND ORDER OF CERTIFICATION PURSUANT TO RULE 54(b)

IN ACCORDANCE WITH this Court's Order and Memorandum Opinion on Cross-Motions for Summary Judgment entered on February 12, 1981 and with this Court's Order of even date herewith setting forth rulings upon Cross-Motions for Reconsideration, Plaintiff's Renewed Motion for Summary Judgment, and Defendant's Motion to Remand to Arbitration and/or for Certification pursuant to Fed.R.Civ.P. 54(b), it is accordingly

ORDERED AND ADJUDGED as follows:

1. Plaintiff's Cross-Motion for Summary Judgment is hereby GRANTED IN PART AND DENIED IN PART as follows:

(a) With respect to the Vertical Collator Agreement, the A-10 Collator Agreement and the Auto-Sorter Agreement,

which are hybrid trade secret/patent agreements, each expires on the expiration date of the last-to-expire patent licensed under that agreement. Moreover, nothing contained in those agreements or in the Amendment Agreement, specifically ¶ 11(b), bars Pitney-Bowes from making or selling the machine that is the subject of the agreement after expiration of said agreement. However, whether New York state law would imply a reversionary interest in the trade secrets underlying the agreements to Mestre and would impose a concomitant obligation upon Pitney-Bowes to compensate Mestre for the use of those trade secrets after expiration of the agreements, is an issue reserved for trial.

(b) With respect to the Rotary Collator Agreement as amended, which is solely a trade secret/know-how agreement, it expires upon the mutually agreed upon date as defined by New York state law. What that date is will remain for trial. Nothing contained in the Rotary Collator Agreement or in the Amendment Agreement, specifically ¶ 11(b), bars Pitney-Bowes from making or selling the Rotary Collator after expiration of that agreement, whatever that date is determined to be. However, whether New York state law would imply a reversionary interest in the trade secrets underlying that agreement to Mestre and would impose a concomitant obligation upon Pitney-Bowes to compensate Mestre for the use of those trade secrets after expiration of the Rotary Collator Agreement, is an issue reserved for trial.

2. The Court expressly finds and determines that upon the expiration of the last of the respective patents for each of the Mestre machines, Pitney-Bowes' obligation under the license agreements to pay royalties on each such machine ceases and Mestre has no express reversionary rights to trade secrets under the license agreements.

3. Defendant's Cross-Motion for Summary Judgment is hereby DENIED in its entirety.

4. The Court expressly finds and determines, under Rule 54(b) of the Federal Rules of Civil Procedure, that there is no just reason for delay in entering partial final summary judgment because:

(a) The unadjudicated claims are practically and logically distinct as to the applicable proofs and law from the unadjudicated claims.

(b) The appellate review as to the adjudicated claims will not require the United States Court of Appeals to review the same or similar issues upon any appeal from subsequent rulings upon the unadjudicated claims.

(c) There are no setoffs or counterclaims present in this case which would make immediate review unwise or unfair upon the adjudicated claims.

(d) Judicial economy favors immediate review as to the adjudicated claims and the parties favor such review. At the very least, to attempt to try the issue of implied reversionary contract rights under circumstances wherein express contract rights have not been settled on review would maximize the likelihood of separate trials and be unduly expensive to all parties.

5. Accordingly, partial final judgment is hereby entered in accordance with Paragraphs 1, 2 and 3 hereof. The Court expressly reserves for trial the issues so indicated above.

DONE AND ORDERED in Chambers at Miami, Florida this 17 day of June 1981.

/s/ SIDNEY M. ARONOVITZ
DISTRICT COURT JUDGE

Copies furnished to:
All Counsel of Record

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 78-1097-Civ-SMA

PITNEY BOWES, INC.,

Plaintiff,

vs.

CELINA MESTRE, Personal Representative of the Estate of Luis Mestre, Deceased,

Defendant.

ORDER GRANTING DEFENDANT'S MOTION FOR EXTENSION OF TIME TO FILE APPEAL AND DIRECTING ENTRY OF RULE 58 PARTIAL JUDGMENT

THIS CAUSE came on to be heard before the Court upon the Motion by Defendant Pursuant to Fed. R. App. P. 4(a)(5) and for Entry of Partial Judgment Pursuant to Fed. R. Civ. P. 58 ("Defendant's Motion") and the memoranda and affidavit supporting same and upon Plaintiff's response thereto. The Court having studied the foregoing, having reviewed the applicable law and having reviewed pertinent portions of the record herein, and being otherwise fully advised, it is accordingly

ORDERED AND ADJUDGED as follows:

1. Defendant's Motion for Extension of Time is hereby GRANTED upon the Court's determination that the Defendant has sufficiently shown excusable neglect and good cause for the requested extension. The Defendant has represented by Affidavit of Counsel to this Court that the Court's Order of

June 17, 1981, entering Partial Final Judgment and Certification Pursuant to Rule 54(b) was not timely communicated by the Court to the Defendant upon entry of same, through inadvertance and error.

2. To the extent that the Court's June 17, 1981 Partial Final Judgment and Order of Certification Pursuant to Rule 54(b) commences the running of the time for the Defendant to take an appeal, then the Court grants an extension to the Defendant, pursuant to Fed. R. App. P. 4(a)(5), *nunc pro tunc* to the close of the Clerk's office on July 27, 1981, to file the Notice of Appeal which the Clerk recorded as filed that date.

3. Alternatively, to the extent the Court's June 17, 1981 Partial Final Judgment and Order of Certification Pursuant to Rule 54(b) did not commence the running of the time for the Defendant to take an appeal, the Clerk is hereby directed to enter a Partial Final Judgment thereon and in conformity with the Partial Final Judgment entered under even date herewith, in accordance with Rule 54(b) and 58 of the Federal Rules of Civil Procedure.

4. It is the intent of the Court, for the reasons previously expressed on June 17, 1981, and in this Order, that the parties should have the opportunity at this stage of the proceedings to be heard in the United States Court of Appeals on the merits of those claims which have been finalized as a result of the Court's rulings without having to contend with any unnecessary procedural or jurisdictional difficulties on appeal.

DONE AND ORDERED in Chambers at Miami, Florida, this 21st day of August, 1981.

/s/ SIDNEY M. ARONOVITZ
UNITED STATES DISTRICT JUDGE

Copies furnished to:

Robert L. Shevin, Esq.
William Dunaj, Esq.
Lars I. Kulleseid, Esq.
John C. Staton, Esq.

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF FLORIDA

CIVIL ACTION CASE NO. 78-1097 CIV-SMA

PITNEY BOWES, INC.,

Plaintiff,

vs.

CELINA MESTRE, Personal Representative of the Estate of Luis Mestre, Deceased,

Defendant.

PARTIAL FINAL JUDGMENT

THIS ACTION came on for hearing before the Court, Honorable Sidney M. Aronovitz, District Judge, presiding, and the issues having been duly heard and a decision having been duly rendered, and the Court having expressly determined that there is no just reason for delay and upon an express direction for the entry of this partial final judgment pursuant to Rule 54(b) of the Federal Rules of Civil Procedure,

IT IS ORDERED and ADJUDGED as follows:

1. Plaintiff's Cross-Motion for Summary Judgment having been granted in part and denied in part as follows:

(a) With respect to the Vertical Collator Agreement, the A-10 Collator Agreement and the Auto-Sorter Agreement, which are hybrid trade secret/patent agreements, each expires on the expiration date of the last-to-expire patent licensed under that agreement. Moreover, nothing contained in those agreements or in the Amendment Agreement, specifically ¶ 11(b), bars Pitney-Bowes from making or selling the machine

that is the subject of the agreement after expiration of said agreement. However, whether New York state law would imply a reversionary interest in the trade secrets underlying the agreements to Mestre and would impose a concomitant obligation upon Pitney-Bowes to compensate Mestre for the use of those trade secrets after expiration of the agreements, is an issue reserved for trial.

(b) With respect to the Rotary Collator Agreement as amended, which is solely a trade secret/know-how agreement, it expires upon the mutually agreed upon date as defined by New York state law. What that date is will remain for trial. Nothing contained in the Rotary Collator Agreement or in the Amendment Agreement, specifically ¶ 11(b), bars Pitney-Bowes from making or selling the Rotary Collator after expiration of that agreement, whatever that date is determined to be. However, whether New York State law would imply a reversionary interest in the trade secrets underlying that agreement to Mestre and would impose a concomitant obligation upon Pitney-Bowes to compensate Mestre for the use of those trade secrets after expiration of the Rotary Collator Agreement, is an issue reserved for trial.

2. The Court expressly finds and determines that upon the expiration of the last of the respective patents for each of the Mestre machines, Pitney-Bowes' obligation under the license agreements to pay royalties on each such machine ceases and Mestre has no express reversionary rights to trade secrets under the license agreements.

3. Defendant's Cross-Motion for Summary Judgment having been denied in its entirety, the parties' rights are as set forth above.

ENTERED at Miami, Florida this 21 day of August 1981.

/s/ SIDNEY M. ARONOVITZ
UNITED STATES DISTRICT JUDGE

Approved By:

/s/ SIDNEY M. ARONOVITZ
District Court Judge
Date: August 21, 1981

Copies furnished to:

Robert L. Shevin, Esq.
William Dunaj, Esq.
Lars I. Kulleseid, Esq.
John C. Staton, Esq.

APPENDIX G

IN THE
UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF FLORIDA

CIVIL ACTION CASE NO. 78-1097 CIV-SMA

PITNEY BOWES, INC.,

Plaintiff,

vs.

CELINA MESTRE, Personal Representative of the Estate of Luis Mestre, Deceased,

Defendant.

NOTICE OF APPEAL

PLEASE TAKE NOTICE that defendant, Celina Mestre, Personal Representative of the Estate of Luis Mestre, deceased, hereby appeals to the United States Court of Appeals of the Fifth Circuit from those portions of the District Court's February 12, 1981 Order, June 17, 1981 Order and June 17, 1981 Partial Final Judgment and Order of Certification Pursuant to Rule 54(b) to the extent that the Court:

(1) granted, in part, plaintiff's Cross-Motion for Summary Judgment; and

(2) denied defendant's Cross-Motion for Summary Judgment; and

(3) held that nothing contained in the Vertical Collator, the A-10 Collator and the Auto-Sorter Agreements, or in the

Amendment Agreement, bars Pitney-Bowes from making or selling the machine that is the subject of each of such agreements after the expiration thereof; and

(4) found and determined that upon the expiration of the last of the respective patents for each of the Mestre machines Mestre has no reversionary rights to trade secrets under the license agreements; and

(5) failed to find that Mestre's reversionary rights, whether express or implied, to trade secrets are not preempted by federal patent law.

SPARBER, SHEVIN, ROSEN, SHAPO
& HEILBRONNER, P.A.
Attorneys for Defendant
Amerifirst Building, 30th Floor
One Southeast Third Avenue
Miami, Florida 33131
Telephone: 358-7990

By: /s/ JEROME H. SHEVIN
Jerome H. Shevin

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing was hand delivered to William Dunaj, Esq., Mershon, Sawyer, Johnston, Dunwody & Cole, 1400 S.E. First National Bank Building, Miami, Florida 33131 and mailed to Lars I. Kulleseid, Esq., Fish & Neave, 277 Park Avenue, New York, New York 10017 this 24th day of July 1981.

/s/ JEROME H. SHEVIN
Jerome H. Shevin

IN THE
UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF FLORIDA
CIVIL ACTION CASE NO. 78-1097 CIV-SMA

PITNEY BOWES, INC.,

Plaintiff,

vs.

CELINA MESTRE, Personal Representative of the Estate of Luis Mestre, Deceased,

Defendant.

NOTICE OF APPEAL

PLEASE TAKE NOTICE that defendant, Celina Mestre, Personal Representative of the Estate of Luis Mestre, deceased, hereby appeals to the United States Court of Appeals of the Fifth Circuit from those portions of the District Court's February 12, 1981 Order, June 17, 1981 Order, June 17, 1981 Partial Final Judgment and Order of Certification Pursuant to Rule 54(b) and August 21, 1981 Partial Final Judgment to the extent that the Court:

(1) granted, in part, plaintiff's Cross-Motion for Summary Judgment; and

(2) denied defendant's Cross-Motion for Summary Judgment; and

(3) held that nothing contained in the Vertical Collator, the A-10 Collator and the Auto-Sorter Agreements, or in the Amendment Agreement, bars Pitney-Bowes from making or

selling the machine that is the subject of each of such agreements after the expiration thereof; and

(4) found and determined that upon the expiration of the last of the respective patents for each of the Mestre machines Mestre has no reversionary rights to trade secrets under the license agreements; and

(5) failed to find that Mestre's reversionary rights, whether express or implied, to trade secrets are not preempted by federal patent law.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing was hand delivered to William Dunaj, Esq., Mershon, Sawyer, Johnston, Dunwody & Cole, 1400 S.E. First National Bank Building, Miami, Florida 33131 and mailed to Lars I. Kulleseid, Esq., Fish & Neave, 277 Park Avenue, New York, New York 10017 and to John C. Staton, Esq., King and Spalding, 2500 Trust Company Tower, Atlanta, Georgia 30303 this 31st day of August 1981.

By: /s/ ROBERT L. SHEVIN
Robert L. Shevin

SEP 12 1983

No. 83-221

IN THE

Supreme Court of the United States

October Term, 1983

CELINA B. MESTRE, Personal Representative
of the Estate of Luis Mestre, deceased,

Petitioner,

v.

PITNEY BOWES INC.,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE ELEVENTH CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

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QUESTIONS PRESENTED

The questions petitioner presents for review may be stated more accurately as follows:

1. Whether the royalty obligations under an agreement licensing trade secrets and patents survive the expiration of the licensed patents where the agreement allegedly requires the licensee to pay royalties after expiration of the last-expiring patent at the same rate and on the same basis as before expiration?

2. Whether this Court should review the lower court's injunction against arbitration where (i) the Court of Appeals refused to consider the injunction against arbitration because it lacked jurisdiction, and (ii) disposition of the claims is governed by federal patent law and policy?

STATEMENT UNDER RULE 28.1

Pursuant to Rule 28.1 of this Court, respondent Pitney Bowes Inc. states that it has the following divisions and subsidiaries: Artec Div., Data Documents, Inc., Dictaphone Corp., Monarch Marking Systems, Inc., Pitney Bowes Credit Corp., and Wheeler Group Inc.

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RESPONDENT'S BRIEF IN OPPOSITION

STATEMENT OF THE CASE

Mestre's statement of the case requires the following elaboration.

1. The License Agreements

Mestre's description of the four machine agreements and the Amendment Agreement omits important aspects of the agreements.

The 1965 Amendment Agreement confirmed that the 1958 Rotary Collator Agreement was a license to make and sell "the rotary collator which is more fully described in applications for letters patent," and also defined the machines in the other three machine agreements by reference to other patents. B-11.*

The Amendment Agreement modified the term of the Rotary Collator Agreement to "continue in full force and effect for seventeen (17) years, or for

---

* For the convenience of the Court, citations herein are made, whenever possible, to the petition for certiorari ("Pet.") and to the appendices A through G that are included in the petition.

the term of any patent or patents which now or hereafter may issue ..., whichever is greater ...." B-12 n.15. No provision provides for payment of royalties after expiration of the term of the Rotary Collator Agreement, nor is there any provision altering the royalty rate at the time the patents expire.

The 1959 Vertical Collator Agreement provided for expiration of the agreement after seventeen years, the expiration of the licensed patent, or the death of Mestre, whichever was later. The 1962 A-10 Collator and 1965 Auto-Sorter Agreements -- like the Rotary Collator Agreement -- were to continue for seventeen years or for the term of any licensed patent, whichever period was longer.

No provision in any of the agreements provides for an altered royalty

rate -- or any royalty at all -- after the agreement expires, and Pitney Bowes has consistently maintained that no such post-expiration royalty was ever intended or agreed to by the parties.

2. Proceedings in the District Court

Mestre correctly states that the District Court held each of the Vertical Collator, A-10 Collator, and Auto-Sorter Agreements to be a hybrid trade secret/patent agreement which ends on the expiration date of the last-to-expire patent licensed under the agreement, and the Rotary Collator Agreement to be solely a trade secret/know-how agreement. The Court reserved for trial the issue of when the Rotary Collator Agreement expired, and found nothing in any of the four machine agreements to prevent Pitney Bowes from manufacturing and marketing

licensed machines after the agreements expire without further royalty obligation.

The District Court also held that none of the four agreements provided either a royalty obligation, or a reversion of any rights to Mestre, after expiration of the agreement. Nevertheless, the Court raised on its own, and reserved for trial, the issue of whether Mestre has an implied reversionary interest in any trade secrets. The Court noted (B-25 n.30):

> "While intimating no view on the merits of the argument, the Court notes that, inasmuch as the Vertical, A-10 and Auto-Sorter Collator Agreements are hybrid trade secret/patent licenses, it can be argued that policies underlying federal patent law would be at odds with the operation here of any state trade secret law which required Pitney-Bowes to make royalty payments on machines sold after expiration of the agreements. Since the parties have not briefed this issue, the Court is simply unprepared, at this juncture, to consider it."

3. Proceedings in the Court of Appeals

The Eleventh Circuit, in an opinion by Judge Johnson, affirmed the District Court's holding that the Vertical Collator Agreement was a "hybrid" agreement which expired on the expiration date of the licensed patent. First, the Court noted that the agreement granted Pitney Bowes the "sole and exclusive right" to manufacture and market the Vertical Collator as described in then-pending patent applications. Next, the Court considered Brulotte v. Thys Co., 379 U.S. 29 (1964), and determined that Brulotte applies to hybrid agreements (A-12):

> "The Brulotte licenses therefore were, like the Vertical Collator Agreement before us, hybrid licenses for both patent and non-patent consideration. If Mestre's argument -- that non-patent consideration in a licensing agreement renders Brulotte inapplicable -- were correct, then the Court in Brulotte would have enforced the use licenses beyond the expiration of the patents. Instead,

> the Court cut off both the patent and non-patent royalties."

The Court of Appeals also found Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979), and Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974), to be entirely consistent with this result. A-12-13. The Court observed that the royalty agreement in Aronson covered both patent and trade secret rights. It highlighted the distinguishing aspects of the Aronson license agreement (A-12):

> "The agreement provided for a royalty of 5% of keyholder sales for as long as sales continued, but it also provided for a reduction of royalties to 2 and 1/2% if no patent issued within five years. No patent issued within that time and the manufacturer reduced his royalty payments accordingly."

Finally, the Eleventh Circuit pointed out that the Aronson Court (A-13):

> "even agreed that, if a patent had issued, all royalty obligations would have ceased after 17 years. We find this significant because it clearly indicates that the

> Supreme Court is willing under certain circumstances to apply Brulotte to terminate royalty rights under a hybrid agreement licensing patent rights and trade secrets."

In Kewanee, where no patent was even applied for, and Aronson, where no patent ever issued, there was no potential for direct conflict between federal patent law and state trade secret law. A-13.

The Court of Appeals found that requiring royalty payments under the Vertical Collator Agreement beyond the date of patent expiration would conflict with federal policy (A-14):

> "First, the 'exclusive rights' granted under the agreement applied equally before and after expiration of the patent.... Second, the agreement required Pitney Bowes to pay royalties at the same rate and on the same basis after the patents expired that it paid while the patent was in effect. Assuming that the value of the agreement to Pitney Bowes was not as high after the patents expired, it is reasonable to assume that at least some part of the post-expiration payment constituted an effort to extend payments for patent rights beyond

> the patent period. Thus, we conclude that the Vertical Collator Agreement is unenforceable under Brulotte." (footnote omitted)

The Court of Appeals noted that Mestre conceded at oral argument on appeal that the Rotary Collator Agreement was a hybrid agreement, just like the other three license agreements.* Stating that the District Court "may choose to accept this concession", the Court of Appeals concluded that the Rotary Collator Agreement would thus expire upon the expiration of the last licensed patent on the rotary collator. A-15 n.13.

The Court also dismissed Mestre's purported appeal of the District Court's

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* Indeed, Mestre's briefs on appeal also admitted that the Rotary Collator Agreement was a hybrid agreement, even though Mestre had argued strenuously for three years in the District Court that the Rotary Collator Agreement was purely a trade secret agreement, and had induced that Court to adopt Mestre's erstwhile position.

injunction against arbitration because Mestre made no mention of the injunction in his Notice of Appeal. The Notice of Appeal (A-17):

> "specifically stated that the appeal was only 'from those portions' of the order that dealt with issues raised in the summary judgment motions. In fact, the notice made that clear by specifically listing each issue on summary judgment; the injunction, which was not one of the issues dealt with on summary judgment, was not listed."

Moreover, because Mestre specifically omitted from his Notice of Appeal any reference to the injunction, the Court was unable to discern that Mestre had an "overriding intent" to appeal the injunction. A-17.

REASONS FOR DENYING THE WRIT

1. The Decision Of The Eleventh Circuit Was Correct

Mestre argues that this Court has never addressed the question "whether a

hybrid agreement in which patents issue can ever survive the expiration of the patents." But, as the Court of Appeals recognized, this case does not raise that broad, speculative issue. A-13 n.12. And this Court has considered whether royalty obligations under hybrid agreements like those involved here survive the expiration of the patents.

Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979), applied Brulotte v. Thys Co., 379 U.S. 29 (1964), to facts similar to those now before the Court.*

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* Brulotte held that it was unlawful to project the patent monopoly beyond the seventeen year term of the patent. Thus, an agreement compelling royalties to be paid for use of a patented invention after the patent expires was held to be unenforceable. 379 U.S. at 33-34. Subsequent decisions have rejected any device to extend patent royalty payments beyond expiration of patents, such as Mestre's trade secret contentions in this action. See, e.g., Veltman v.

[footnote continued on following page]

In Aronson, the parties agreed that Quick Point would pay a 5% royalty if a patent issued on Aronson's keyholder, and, if no patent issued within five years, a 2 1/2% royalty as long as Quick Point continued to sell the keyholder. No patent issued. On those facts, this Court concluded that nothing had occurred to invoke federal patent policy, and enforced the unambiguous perpetual obligation to which the

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[footnote continued from preceding page]

Norton Simon, Inc., 425 F.Supp. 774, 775 (S.D.N.Y. 1977); Pipkin v. FMC Corporation, 427 F.2d 353, 357 (5 Cir. 1970); Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc., 367 F.2d 678, 681 (6 Cir. 1966). Accord, Scapa Dryers, Inc. v. Abney Mills, 269 F.2d 6, 13 (5 Cir. 1959), cert. denied 361 U.S. 901 (1959).

parties had agreed.* 440 U.S. at 262, 264. However, if a patent had issued, all royalty obligations would have ceased upon expiration of the patent (440 U.S. at 263-64):

> "It is quite true that had she succeeded [in obtaining a patent], she would have received a 5% royalty only on keyholders sold during the 17-year life of the patent. Offsetting the limited terms of royalty payments, she would have received twice as much per dollar of Quick Point's sales, and both she and Quick Point could have licensed any others who produced the same keyholder. Which course would have produced the greater yield to the contracting parties is a matter of speculation; the

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* In the present case, unlike Aronson, the District Court expressly found no such perpetual obligation. Instead, the District Court left for trial only the question of whether some reversionary obligation should be implied after expiration of an agreement. B-22-24.

> parties resolved the uncertainties by their bargain."*

Thus, the decisions by the District Court and the Eleventh Circuit are entirely consistent with the pronouncements of this Court. Nor does Mestre point to any inconsistent decision from another circuit, because there is none.

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* Mestre contends that the Court did not mean that the trade secret royalty obligation would thereby end. But such an interpretation completely ignores the Court's reference to "limited terms of royalty payments" and the language: "Which course would have produced the greater yield to the contracting parties is a matter of speculation...." If the patent had issued, there would have been two possibilities: (i) a 5% royalty for the seventeen-year patent term and no subsequent royalty at all, or (ii) a 5% royalty for the patent term followed by a 2 1/2% continuing royalty for use of the trade secrets. If the Court had contemplated the latter, that "course" would <u>always</u> produce a greater yield than a 2 1/2% royalty if no patent issued. There would then be no "speculation" as to which course would produce the greater yield.

Compare Timely Products, Inc. v. Costanzo, 465 F.Supp. 91 (D.Conn. 1979).

Accordingly, there is no reason for this Court to review the merits of the decision below.

2. This Court Should Not Review The Injunction Against Arbitration

Mestre's belated attempt to overturn the injunction against arbitration should be rejected.* That issue is not properly before this Court, just as it was not properly before the Court of Appeals.

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* Mestre could have sought prompt review of the District Court's November 8, 1978 injunction against arbitration, see Rule 4(a), F.R.App.P., as has ordinarily been done in the reported cases. However, Mestre chose instead to take extensive discovery and to seek summary judgment, all of which consumed over three years of proceedings in the District Court. It was only after the District Court denied summary judgment to Mestre and awarded partial summary judgment to Pitney Bowes in 1982 that Mestre's interest in arbitration was rekindled.

In any event, the decisions from other circuits which Mestre contends are inconsistent with the District Court's injunction are in fact distinguishable from the facts of this case.

a. The Court Of Appeals Correctly Refused To Consider The Injunction Because It Lacked Jurisdiction

The Court of Appeals did not reach the merits of the injunction against arbitration. A-18 n.17. The Court held only that it lacked jurisdiction to consider the injunction because Mestre failed to mention in any way the injunction in his Notice of Appeal. A-15.

Only two facts on this record need be mentioned: (1) Mestre's Notice of Appeal specifically stated that his appeal was "from those portions" of the District Court's Orders and Partial Final Judgment which dealt with the issues

raised in the cross-motions for summary judgment (and did not mention the 1978 Order enjoining arbitration); and (2) Mestre, in his Notice, specifically listed each issue decided on the cross-motions for summary judgment from which he sought to appeal. See G-1-4. The injunction against arbitration was not included.*

By holding that it had no jurisdiction under these circumstances, the Eleventh Circuit was applying law uniformly applied by the other Circuits. E.g., C.A. May Marine Supply Co. v. Brunswick Corp., 649 F.2d 1049, 1056 (5 Cir. 1981), cert. denied 454 U.S.

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* Mestre's suggestion that the District Court's 1982 decision denying Mestre's summary judgment motion -- rather than the Court's Order four years earlier -- "deprived Mestre of arbitration" is transparently wrong (Pet. 11 n.7).

1125 (1981); Elfman Motors, Inc. v. Chrysler Corp., 567 F.2d 1252, 1254 (3 Cir. 1977); Cole v. Tuttle, 540 F.2d 206, 207 (5 Cir. 1976); Symons v. Mueller Co., 526 F.2d 13, 19 (10 Cir. 1975).

Contrary to Mestre's assertion (Pet. 11 n.7), the Eleventh Circuit's decision was not inconsistent with Foman v. Davis, 371 U.S. 178 (1962). In Foman, the appellant had filed a premature Notice of Appeal from a judgment, followed by a second Notice of Appeal from the District Court's subsequent denial of appellant's motions to vacate the judgment. This Court found an intent to appeal from the judgment, even though the second Notice did not specifically refer to the judgment. Id. at 181. Here, nothing in Mestre's Notices of Appeal indicated any intention to appeal the injunction.

Mestre relies on other decisions for the proposition that the Notices of Appeal reflected an intent to appeal the injunction Order (Pet. 11 n.7). Those decisions are plainly distinguishable. In those cases, Notices of Appeal from certain rulings on the merits were held to reflect an intent to appeal also from underlying rulings on the merits which were referred to in the later rulings. Here, nothing suggested in any way an intention to appeal the Order enjoining arbitration, which had been entered more than three years earlier.

b. The Dispute Between The Parties Should Not Be Arbitrated Because Federal Policy Governs Its Resolution

Furthermore, on the merits, Mestre's arguments fail. Mestre asserts that resolution by this Court of the federal policy issue would leave only questions

of state law to be decided -- whether royalty obligations survive expiration of licensed patents and whether, after expiration of a machine agreement, Mestre has implied-in-law or implied-in-fact reversionary rights. Thus, Mestre contends, those are "state law" questions that should be arbitrated.

Mestre's assertion that only "state law" questions remain is wrong. With respect to the enforceability of a royalty requirement which continues after the licensed patents have expired, affirmance of the Eleventh Circuit's decision would dispose of that issue, leaving for trial only the question of any implied reversionary rights.*

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* The other issue left for trial by the District Court -- the date on which the Rotary Collator Agreement expired -- has been effectively mooted by Mestre's concession in his briefs and argument in the Court of Appeals (A-15 n.13) that the Rotary Collator Agreement is a hybrid agreement. See p. 9, supra.

However, that remaining question cannot be adjudicated without deciding whether federal law precludes a reversion of trade secret royalty rights from being implied when the patents licensed under a hybrid agreement, as well as the agreement itself, have expired. The District Court and the Court of Appeals have already suggested that the question of reversionary rights is not arbitrable because that queston, too, is dependent upon the application of federal law and policy. A-18 n.17; B-25 n.10.*

Every case cited by Mestre as supposedly being in conflict with the

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* Mestre also does not explain why the arbitration clause should apply to a question that would only arise after the agreements have expired. At a time when the agreements between the parties are no longer in existence, there is also no longer an arbitration clause. For this separate reason, the remaining issue should not be arbitrated.

District Court's decision concerned the arbitrability of state law claims where separately-pleaded federal claims and state claims are present in the same case. Those cases considered whether a federal court can deny arbitration as to pendent state claims where the court is also asked to decide non-arbitrable federal claims. E.g., Miley v. Oppenheimer & Co., 637 F.2d 318, 334 (5 Cir. 1981) (federal securities law claim and state law breach of fiduciary duty claim); Dickinson v. Heinold Securities, Inc., 661 F.2d 638, 640 (7 Cir. 1981) (federal securities law claims and state law tort and contract claims); Lee v. Ply*Gem Industries, Inc., 593 F.2d 1266, 1267-68 (D.C. Cir. 1979) (federal antitrust claims and state common law claims of fraud, breach of contract, and breach of fiduciary duty). Some circuits have applied the so-called

"doctrine of intertwining" in such cases to hold that none of the claims can be arbitrated, while other circuits have ruled that the state claims should be arbitrated.

The decisions relied on by Mestre are inapplicable to the present case. The District Court enjoined arbitration because each claim presented "issues too intertwined with federal law and policy to be arbitrable." Pitney Bowes, Inc. v. Mestre, 203 USPQ 554 (S.D.Fla. 1978). The District Court was not faced with separate non-arbitrable federal claims and arbitrable state claims. Instead, the claim in this case -- a request for a declaration as to Mestre's right to post-patent expiration royalties -- had potentially conflicting federal and state law aspects.

Thus, the District Court's decision did not conflict with decisions of other

circuits. Indeed, the decisions cited by Mestre actually support the action taken by the District Court in enjoining arbitration, because those decisions hold that claims that turn on the application of important federal policies are not arbitrable. See Lee v. Ply*Gem Industries, Inc., 593 F.2d 1266, 1274 (D.C. Cir. 1979); Dickinson v. Heinold Securities, Inc., 661 F.2d 638, 644 (7 Cir. 1981); Helfenbein v. International Industries, Inc., 438 F.2d 1068, 1070 (8 Cir. 1971); American Safety Equipment Corp. v. J.P. Maguire & Co., 391 F.2d 821, 826-27 (2 Cir. 1968).

CONCLUSION

A writ should not be granted.

Respectfully submitted,

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PETITIONER'S REPLY BRIEF

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ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE ELEVENTH CIRCUIT

PETITIONER'S REPLY BRIEF

INTRODUCTORY STATEMENT

This brief is submitted on behalf of Petitioner[1] in reply to Respondent Pitney Bowes' Brief in Opposition ("Resp. Br.") to the Petition for a Writ of Certiorari (the "Petition").

Pitney Bowes does not contend that the questions raised in the Petition are unworthy of this Court's consideration but rather argues that, on the merits, the decision of the Eleventh Circuit should be affirmed (Resp. Br. 10, 15). Thus, Pitney Bowes asserts:

1 Petitioner is also referred to as Mestre.

1. This Court has already ruled on the merits of the question concerning hybrid agreements and has held that trade secret rights do not survive the expiration of subsequently issued patents licensed in the same agreement (*id.* at 11), *i.e.*, the merger of trade secrets into patents ("merger").

2. Petitioner failed to raise the question of the injunction against arbitration in its Notice of Appeal and, in any event, no claims herein are arbitrable because all are governed by federal policy. (*Id.* at 15, 19-20)

As will be demonstrated below, (i) the merger issue has not been decided by this Court, and (ii) the Notice of Appeal conferred jurisdiction on the Eleventh Circuit to vacate the injunction against arbitration.

I.

THE MERGER ISSUE HAS NOT BEEN DECIDED BY THIS COURT

Pitney Bowes recognizes that the agreements herein (i) were hybrid licenses of both trade secrets and subsequently issued patents (*id.* at 4, 6), and (ii) provided for payment for trade secrets after the expiration of the patents (*id.* at i). However, Pitney Bowes' various references to "royalties" (*id.*, *passim*) obscure the terms of the agreements relating to trade secrets thereby suggesting that Mestre is attempting to extend the life of the patents.

Mestre has never contended that the agreements provided for payment of patent royalties after the expiration of the patents and has always recognized that a patent cannot be extended beyond seventeen years. The single simple question (raised in the Petition as Question 1) has always been whether or not as a matter of federal patent law Mestre's trade secrets were merged into subsequently issued patents.

Pitney Bowes contends that the absence of allocation prior to, during, and after the patents as a matter of federal patent

law resulted in a merger. (*Id.* at i, 10-15) However, the fact that the agreements called for unaltered payments throughout is but a reflection of the bargain.[2]

Although Pitney Bowes suggests that this Court's decisions in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), and in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), together stand for merger, this constitutes a misreading of these cases as well as a failure to give effect to the full scope of this Court's decision in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 491-93 (1974).

In *Brulotte*, this Court held that certain use licenses restricting licensees' use, sale and removal of hop-picking machines expired as a matter of law with the patents thereon. 379 U.S. at 32. Pitney Bowes argues in effect that trade secret licenses are comparable to use licenses and, therefore, should expire with the patents. (Resp. Br. 6-7) The fallacy of this argument is that Mestre's trade secrets are independent of the patents and expedite the process of manufacturing the machines. In contrast, the use licenses of the machines in *Brulotte* had nothing to do with the manufacturing process.[3]

While recognizing the commonality of the facts in *Aronson* to those involved herein (Resp. Br. 11), Pitney Bowes incorrectly attempts to extrapolate out of dictum in *Aronson* an argument in favor of merger. Pitney Bowes does this by

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2 *Timely Products, Inc. v. Costanzo*, 465 F. Supp. 91 (D. Conn. 1979), referred to by Pitney Bowes (Resp. Br. 15), is inapposite because it invalidated a provision eliminating the incentive to challenge a patent's validity.

3 Although Pitney Bowes cites four cases in support of its claim that lower court decisions subsequent to *Brulotte* "have rejected any device to extend patent royalty payments beyond expiration of patents" (Resp. Br. 11n), none of these cases involved agreements licensing both trade secrets and subsequently issued patents.

assuming that "[i]f the patent [in *Aronson*] had issued, there would have been two possibilities: (i) a 5% royalty for the seventeen-year patent term and no subsequent royalty at all, or (ii) a 5% royalty for the patent term followed by a 2-1/2% continuing royalty for use of the trade secrets." (Resp. Br. 14n) Pitney Bowes then gratuitously observes that, "[i]f the Court had contemplated the latter, that 'course' would *always* produce a greater yield than a 2-1/2% royalty if no patent issued." (*Id.*) (emphasis in original)

It is clearly conjectural whether a 2-1/2% perpetual trade secret royalty would exceed a 5% royalty for the life of a patent. The amount of royalties would depend on a number of factors, including the number of keyholders sold during the seventeen-year period as contrasted with those sold in perpetuity.

Thus, there is no basis for Pitney Bowes to claim that if *Aronson* had involved hybrid agreements, "all royalty obligations would have ceased upon expiration of the patent." (Resp. Br. 13) In point of fact *Aronson* did not decide in favor of merger and, indeed, noted that the 2-1/2% trade secret royalty was "explicitly independent of federal law." 440 U.S. at 262.

Because this Court has not decided whether trade secret rights in a hybrid agreement survive the expiration of the patents, the Petition as to Question 1 should be granted.

II.

THE NOTICE OF APPEAL CONFERRED JURISDICTION ON THE ELEVENTH CIRCUIT TO VACATE THE INJUNCTION AGAINST ARBITRATION

Pitney Bowes erroneously contends that (i) Petitioner's Notice of Appeal (the "Notice") does not raise the injunction against arbitration (Resp. Br. 15-19) and (ii) even if the Notice were adequate, arbitration is inappropriate because resolution of the dispute is governed by federal policy (*id.* at 19).

As set forth below, the Notice was adequate and the dispute, involving state law, should be referred to arbitration.

A. The Notice Was Adequate to Confer Jurisdiction

Pitney Bowes never argues—nor could it—that it suffered or would suffer any prejudice if the Notice were construed to raise the issue of the injunction against arbitration. Since filing the demand for arbitration Mestre has consistently maintained that, in accordance with the terms of the agreements, disputes concerning compensation for use of trade secrets are arbitrable. Pitney Bowes extensively briefed the issue of arbitrability in both the district court and in the Eleventh Circuit. Thus, not only is there no prejudice to Pitney Bowes, but, in addition, Mestre obviously intended to appeal the injunction and return to arbitration.[4]

Pitney Bowes erroneously asserts that under the "law uniformly applied by the other Circuits" (*id.* at 17) it was entitled to a dismissal of the appeal on the injunction issue. To the contrary, as this Court recognized in *Foman v. Davis*, 371 U.S. 178, 181 (1962), the touchstone of the inquiry is whether the party objecting to the notice is prejudiced by a liberal construc-

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4 The cases cited by Pitney Bowes (Resp. Br. 17-18) are inapposite because they concern prejudice to appellees or issues abandoned by appellants.

tion thereof. *Accord, St. Joseph Light & Power Co. v. Zurich Insurance Co.*, 698 F.2d 1351, 1360 (8th Cir. 1983); *Munoz v. Small Business Administration*, 644 F.2d 1361, 1364 (9th Cir. 1981); *United States v. Leonard*, 639 F.2d 101, 106 (2d Cir. 1981). *See also New England Mutual Life Insurance Co. v. Null*, 554 F.2d 896, 903 n.4 (8th Cir. 1977).

However, it is unnecessary to look beyond the specific language of the Notice to find Mestre's appeal from the injunction. Pitney Bowes filed its action to enjoin the arbitration which Mestre had initiated. If Mestre's motion for summary judgment had been granted, Pitney Bowes' complaint would have been dismissed, leaving Mestre's demand for arbitration undisturbed. The district court denied Mestre's motion, thereby depriving Mestre of arbitration, and the Notice specifically referred to the denial of the motion for summary judgment.

It is, therefore, misleading to suggest (as in Resp. Br. 17n) that the appeal from the denial of Mestre's motion did not raise the injunction issue.

B. Arbitration of the Dispute Is Proper

As explained in the Petition (at 11 n.6), no matter how Question 1 is resolved, all remaining issues would involve only New York law. Obviously, if there is no merger, federal policy does not prevent enforcement of reversionary interests in trade secrets after expiration of the patents. But even if there were merger, no court so far as Petitioner is aware has held that reversionary interests would be extinguished by federal patent law.[5]

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5 Pitney Bowes asserts that Mestre "does not explain why the arbitration clause should apply to a question [reversionary rights] that would only arise after the agreements have expired." (Resp. Br. 21n) Mestre has contended throughout that the agreements provided for Mestre's reversionary interests in the trade secrets and, accordingly, any dispute relating thereto is arbitrable. *See, e.g., Cincinnati Gas & Electric Co. v. Shaw Co.*, 706 F.2d 155, 160 (6th Cir. 1983).

Pitney Bowes seeks to distinguish Petitioner's cases requiring arbitration of state law issues on the ground that in those decisions federal and state claims were "*separately-pleaded*". (Resp. Br. 22) (emphasis in original) Such a distinction is incomprehensible because the complaint herein was drafted by Pitney Bowes—without Petitioner's assistance—and certainly Pitney Bowes' pleadings, no matter how artfully drafted, cannot extinguish Petitioner's right to arbitrate state law issues.

The conflict in the Circuits with respect to arbitration of state law issues in cases involving separate federal and state questions is obviously germane to this Petition. Moreover, Pitney Bowes agrees with the Petition that the Circuits are in conflict with respect to the role of arbitration in such cases. (Resp. Br. 22-23) Pitney Bowes, by not taking exception, apparently also agrees with the Petition that decisions of this Court favor enforcement of arbitration clauses.

The Petition as to Question 2 should be granted because the Notice sought review of the district court's refusal to permit arbitration of state law issues.

CONCLUSION

For the reasons stated herein and in the Petition, a writ of certiorari should issue to the United States Court of Appeals for the Eleventh Circuit.

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Respectfully submitted,

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